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LATIN AMERICA AND INTERNATIONAL TRADE POLICY *

Note: This report, which was prepared with the advice of high-level officials from various Latin American countries, will be revised in form and substance and subsequently expanded in the light of the discussions at the twelfth session of the Commission.

* Unrevised translation.

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INTRODUCTION

This report forms part of the regular work of the secretariat on the foreign trade and economic development of the Latin American countries, in accordance with various resolutions of the Commission, and with resolution 253 (XI) in particular. It constitutes the preliminary version of a study being prepared for the second session of UNCTAD, in accordance with resolution 262 (AC.58) of the ECLA Committee of the Whole, with the request formulated by the Ad Hoc Committee on Latin American Co-ordination (CECLA) at its third meeting at the expert level, and with resolution 2206 (XXI) of the United Nations General Assembly.

In resolution 262 (AC.58), the ECLA Committee of the Whole requested the secretariat "to accord the Latin American countries the co-operation and advice needed, on an individual or collective basis, for the purpose of defining possible lines of joint action in the field of trade policy, especially in relation to ... questions of special interest for those countries that it is decided to consider at the second session of UNCTAD". CECLA, at its third meeting at the expert level in Mexico City, July 1966, adopted a resolution on the Latin American co-ordination programme for the second session of UNCTAD, in which it requested ECLA to draft a basic document defining the Latin American position in relation to the forthcoming Conference on Trade and Development. In addition, General Assembly resolution 2206 (XXI) invited various United Nations bodies and the regional economic commissions to "pay special attention, in their programmes, to preparations for the second session of the Conference and to take such steps as may be feasible to extend their full co-operation in ensuring its success".

The provisional nature of this report largely stems from the fact that it deals with the situation existing at the time of its preparation. There may well be significant changes in a number of important aspects even before the report is considered by the Commission in Caracas. Recent events which will have to be taken into consideration include the

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completion of the Kennedy Round negotiations and the parallel negotiations under way in GATT concerning international agreements on meat, cereals and dairy products, since only when these negotiations have been completed will it be possible to evaluate fully the consequences for the Latin American countries and the policies they should adopt in co-ordination with other developing regions. Similarly, in April 1967 there is to be a meeting of American Presidents, which is expected to result in important decisions on foreign trade, economic integration and international financial co-operation. Other events which might affect the situation and prospects of Latin American foreign trade include, for example, a decision on the entry of the United Kingdom into the European Economic Community in the near future, which, although unlikely, cannot be entirely ruled out. Similarly, meetings of subsidiary bodies of UNCTAD such as the Committee on Invisibles and Financing related to Trade, the Committee and Permanent Sub-Committee on Commodities, the Group on Preferences and the Committee on Manufactures, and the fifth session of the Trade and Development Board, to be held between April and August 1967, may lead to considerable progress in defining problems, establishing criteria and guidelines, and clarifying the various positions on the topics under discussion.

However, the provisional nature of this document does not invalidate the general conclusions drawn, nor is it likely that these conclusions will be modified at all substantially when the report is revised and brought up to date in the light of the events referred to above and other information and material subsequently available.

The analysis in chapter I of the recent evolution of the external sector in the Latin American countries reveals that exports have grown more rapidly than in the fifties, but this was mainly due to circumstantial factors affecting only certain products or groups of products (non-ferrous metals and cereals, for example), the trends followed by other products, such as tropical-zone products, being distinctly unfavourable. These factors do not signify any change in long-term trends and the prospects for Latin American exports, in terms of both volume and value, are not very encouraging, unless there is a change in the main lines of international

/trade policy,

trade policy, particularly in the policies of the major markets. This means that conditions have yet to be established that will favour a steady expansion of Latin American exports at a satisfactory rate and the diversification of manufactures and semi-manufactures through the opening up of new export lines, and that Latin America continues to depend very heavily on a few traditional commodities.

Moreover, despite the growth of Latin American exports as a whole, the capacity to import is still far too low in many countries, as a result of the size of the external debt and the relative stagnation of external financing. The debt burden, which is cutting deeper and deeper into export earnings, has forced many countries to continue restricting imports, with the result that imports have not grown rapidly enough to keep pace with economic development needs.

The analysis in chapter II of the main lines of international trade policy, of recent trends and events in UNCTAD and GATT, and the trade policies of the major markets (the United States, the European Economic Community, the United Kingdom and other developed market and centrally-planned economies) towards Latin America reveals the lack of progress since the first session of UNCTAD in meeting the requests of the developing countries and the limited way in which the developed countries have fulfilled the UNCTAD recommendations and the GATT agreements.

It follows that at the second session of UNCTAD considerable progress needs to be made in solving the various external sector problems of the developing countries and agreements should be reached involving commitments to undertake negotiations, within a given period and in a given form, in accordance with the objectives and principles established in the agreements.

For this purpose, it is essential, as has been pointed out repeatedly in UNCTAD, to create proper conditions for holding negotiations on specific topics of immediate interest to the developing countries, so that as the positions of the developed and developing countries come closer together, agreements can be reached on appropriate programmes of practical measures. In this connexion, General Assembly resolution 2206 (XXI), quoted above, calls upon the Trade and Development Board and its subsidiary bodies, in their preparations for the second session of the Conference, "to attempt

/to identify

to identify the issues on which preparatory work would have progressed sufficiently to enable specific programmes of action to be drawn up at the Conference by means of negotiation aimed at securing the greatest possible measure of agreement".

In chapter III there is a discussion of the topics on which specific agreements are most likely to be reached at the second session of the Conference. They include the expansion, liberalization and organization of the commodity markets; improved access to the markets of developed countries for the manufactures and semi-manufactures of developing countries, particularly through a system of unreciprocal general preferences, and other measures for expanding and diversifying exports of manufactures and semi-manufactures; new formulas and conditions for international financial co-operation in respect of trade and development; and aspects relating to maritime transport. This list is not intended to be exhaustive and subsequently may include other topics of special interest in which the Latin American countries may consider it possible to make appreciable progress and which they believe should be included in the agenda of the second session of UNCTAD.

If satisfactory results are to be achieved at that session, there must be a fundamental change in the trade and international co-operation policy of the developed countries. Their present policy of, on the one hand, maintaining that the developing countries must expand and diversify their exports in order to accelerate their economic development and, on the other, of placing obstacles in the way of such expansion and diversification must be overcome. In practice, they are still subsidizing and protecting both industrial and agricultural activities that would provide the developing countries with real and immediate prospects for expansion.

Collective action on the part of the developing countries is a decisive element in securing such a change. The first session of UNCTAD revealed the importance of the unity displayed by the developing countries, a unity which strongly influenced the results of the Conference and was responsible for creating the spirit of compromise that presided over its final stage, and which was largely the result of the adherence of the Latin American countries to the principles of the Charter of Alta Gracia.

/It was

It was to preserve this unity that the Latin American countries that were signatories of the Charter of Alta Gracia established the Ad Hoc Committee on Latin American Co-ordination (CECLA) as a permanent Latin American forum for discussing questions relating specifically to UNCTAD and other aspects of international trade. The member countries of CECLA have stressed the need to intensify its activities and give greater practical effect to its recommendations and decisions. They have emphasized that the Latin American countries can play an effective role in UNCTAD, GATT and other international forums only in so far as they act together, and that this joint action must be co-ordinated with that of other developing regions, particularly through the group of "77".

Chapter I

LATIN AMERICAN FOREIGN TRADE: RECENT EVOLUTION AND TRENDS

1. The expansion of exports in the recent period

The approximate value of Latin America's ^{1/} exports in 1966 - 10,800 million dollars - represents an increase of 6 per cent on the previous year, as against increases of 4.6 and 7.7 per cent in 1965 and 1964 respectively. The exports of the Latin American countries taken together have, therefore, shown a trend towards expansion during 1964-66, one the more significant in that the majority of these countries have shared in it, whereas in earlier periods the increases were often confined to a few countries while the exports of the rest underwent degrees of decrease. The situation was most favourable in this respect in 1964, when increases were registered in 18 of the 19 countries for which information is available. In 1964 and 1965 increases were achieved by 13 countries (see table 1).

It is also interesting to note that the annual percentage increases of 1964-66 are slightly higher if Venezuela is excluded from the total of Latin American countries. During this recent period the value of Venezuela's exports showed only very small variations around a figure of roughly 2,500 million dollars in contrast with the situation during the greater part of the previous decade, when its increases contributed substantially to the growth registered by the region as a whole. The weight of Venezuela's export figures in the Latin American totals and the fact that during the last four years they have remained practically unchanged suggest that it would be useful to consider them separately; this will in particular enable the extent of the changes registered by the other Latin American countries to be more fully appreciated.

^{1/} The figures for Cuba have been excluded because of the incompleteness of the information available.

Table 1

LATIN AMERICA ^{a/}: CURRENT VALUES OF EXPORTS

(In millions of dollars)

Countries	1960	1961	1962	1963	1964	1965	1966
Brazil	1 269	1 403	1 214	1 406	1 430	1 596	1 723
Colombia	480	463	462	474	623	580	550
Costa Rica	87	83	93	93	113	112	134
El Salvador	103	119	139	150	176	189	181
Guatemala	116	114	119	153	159	190	231
Haiti	38	32	40	43	38	37	42
Nicaragua	57	62	83	100	119	145	140
Dominican Republic	157	139	170	174	180	123	130
Ecuador	146	132	149	150	161	174	193
Honduras	64	74	83	84	95	129	140
Panama	39	41	60	73	81	93	100
Argentina	1 079	964	1 216	1 365	1 410	1 488	1 537
Uruguay	129	175	154	165	179	191	183
Mexico	778	839	941	986	1 071	1 159	1 232
Peru	442	508	553	555	685	687	785
Paraguay	37	44	40	40	46	61	55
Bolivia	53	62	61	67	96	112	116
Chile	478	442	482	491	589	677	886
<u>Sub-total: 18 countries</u>	<u>5 552</u>	<u>5 696</u>	<u>6 059</u>	<u>6 569</u>	<u>7 251</u>	<u>7 743</u>	<u>8 358</u>
Venezuela	2 384	2 453	2 544	2 464	2 480	2 436	2 440
<u>Total for Latin America ^{a/}</u>	<u>7 936</u>	<u>8 149</u>	<u>8 603</u>	<u>9 033</u>	<u>9 731</u>	<u>10 179</u>	<u>10 798</u>

Source: Prepared from the official balance of payments statistics. These figures include the adjustments made to allow for subvaluation and frontier trade.

^{a/} Latin America excluding Cuba.

/From comparison

From comparison of the cumulative annual growth rates of Latin American exports during different periods comprised within 1950-66 it appears that the years 1964-66 constituted the stage of most rapid expansion of any. As can be seen from the figures of table 2, the growth of the value of exports during the last few years was appreciably greater than that of the previous decade, and especially greater than that of 1955-60. In general, the annual growth rate of the value of Latin America's exports has been higher during 1960-66 than during 1950-60, reflecting the fact that the contractions which have affected several countries of the region were both more frequent and more severe in the earlier than in the more recent period.

This fact is illustrated very clearly by the figures for the annual variations which occurred in the exports of each of the countries of the region in the two six-year periods, 1955-60 and 1961-66 (see figure I). Since detailed analysis by countries of the evolution of the region is one of the main concerns of the annual Economic Survey of Latin America^{2/} it is here only necessary to mention the most important features of the evolution of the countries taken together. In the first place, it is of particular importance to note that the higher growth rate of the total of exports appears mainly to be due to certain circumstantial events, among which are the booms in the markets for non-ferrous metals (due, in part, to the increasing intensity of the war in Viet-Nam) and for cereals (as a result of large-scale purchases by the Soviet Union and other socialist countries). In the second place, the improvement in the international prices of a number of the main export products, which was particularly marked in 1964 and 1965, tended to disappear in some of them during 1966. In sum, therefore, it appears that the relatively favourable evolution of exports during 1964-66 has been mainly due to temporary conditions, some of which are already disappearing.

^{2/} See Economic Survey of Latin America for 1966 (E/CN.12/767) and the Surveys for 1964 and 1965.

Table 2

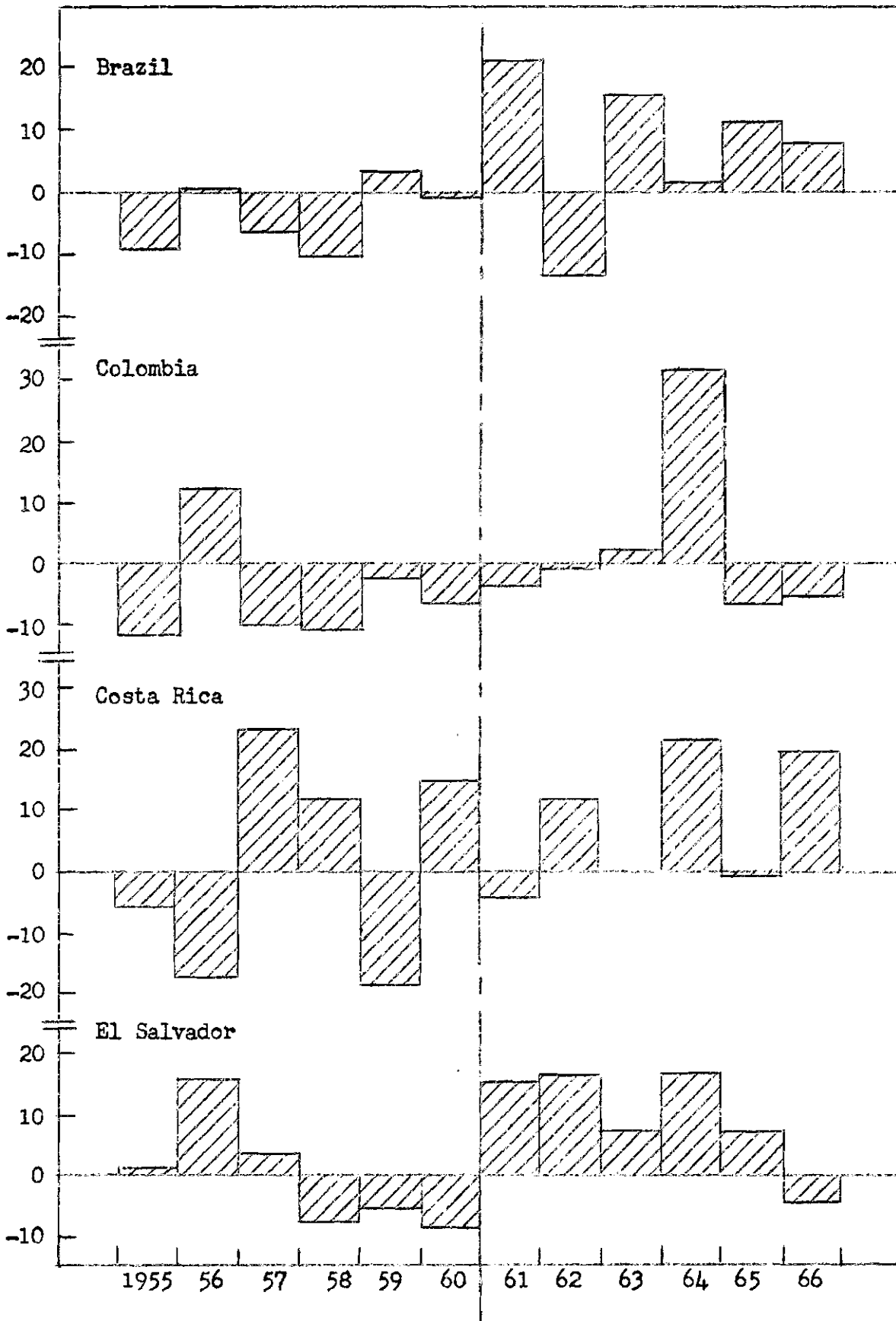
LATIN AMERICA ^{a/}: VARIATIONS IN THE CURRENT VALUE (FOB) OF EXPORTS,
COMPARED WITH THOSE IN WORLD EXPORTS AND THOSE
IN EXPORTS FROM THE DEVELOPED REGIONS

Countries	Cumulative annual rates			Annual variations			
	1950 1955	1955 1960	1960 1963	1963 1962	1964 1963	1965 1964	1966 1965
Brazil	0.9	-2.2	3.5	15.8	1.7	11.6	8.0
Colombia	7.9	-3.7	-0.4	2.6	31.4	-6.9	-5.2
Costa Rica	7.6	1.4	2.2	-	21.5	-0.9	19.6
El Salvador	9.2	-0.7	13.3	7.9	17.3	7.4	-4.2
Guatemala	5.8	2.0	9.9	28.6	3.9	19.5	21.6
Haiti	-	1.6	4.2	7.5	-11.6	-2.6	13.5
Nicaragua	21.5	-4.6	20.5	20.5	19.0	21.8	-3.4
Dominican Republic	5.7	6.4	3.5	2.3	3.4	-31.7	5.7
Ecuador	9.2	4.9	0.9	0.7	7.3	8.1	10.9
Honduras	-1.8	3.5	9.5	1.2	13.1	35.8	8.5
Panama	8.4	-2.8	23.3	21.7	11.0	14.8	7.5
Argentina	-4.5	3.0	8.2	12.3	3.3	5.5	3.3
Uruguay	-7.1	-6.7	8.5	7.1	8.5	6.7	-4.2
Mexico	8.9	-0.5	8.2	4.8	8.6	8.2	6.3
Peru	7.3	9.9	7.9	0.4	23.4	0.3	14.3
Paraguay	2.2	-1.1	1.8	-	15.0	32.6	-9.8
Bolivia	0.7	-8.1	8.2	9.8	43.3	16.7	3.6
Chile	10.5	-0.3	0.5	1.9	20.0	14.9	30.9
Venezuela	10.4	4.7	2.2	-3.1	0.6	-1.8	0.2
Latin America ^{a/}	4.4	1.4	4.7	5.0	7.7	4.6	6.1
World exports	8.2	6.2	6.2	9.0	12.5	8.1	7.0
Exports from developed regions	10.0	7.4	6.6	9.2	13.2	9.0	7.0

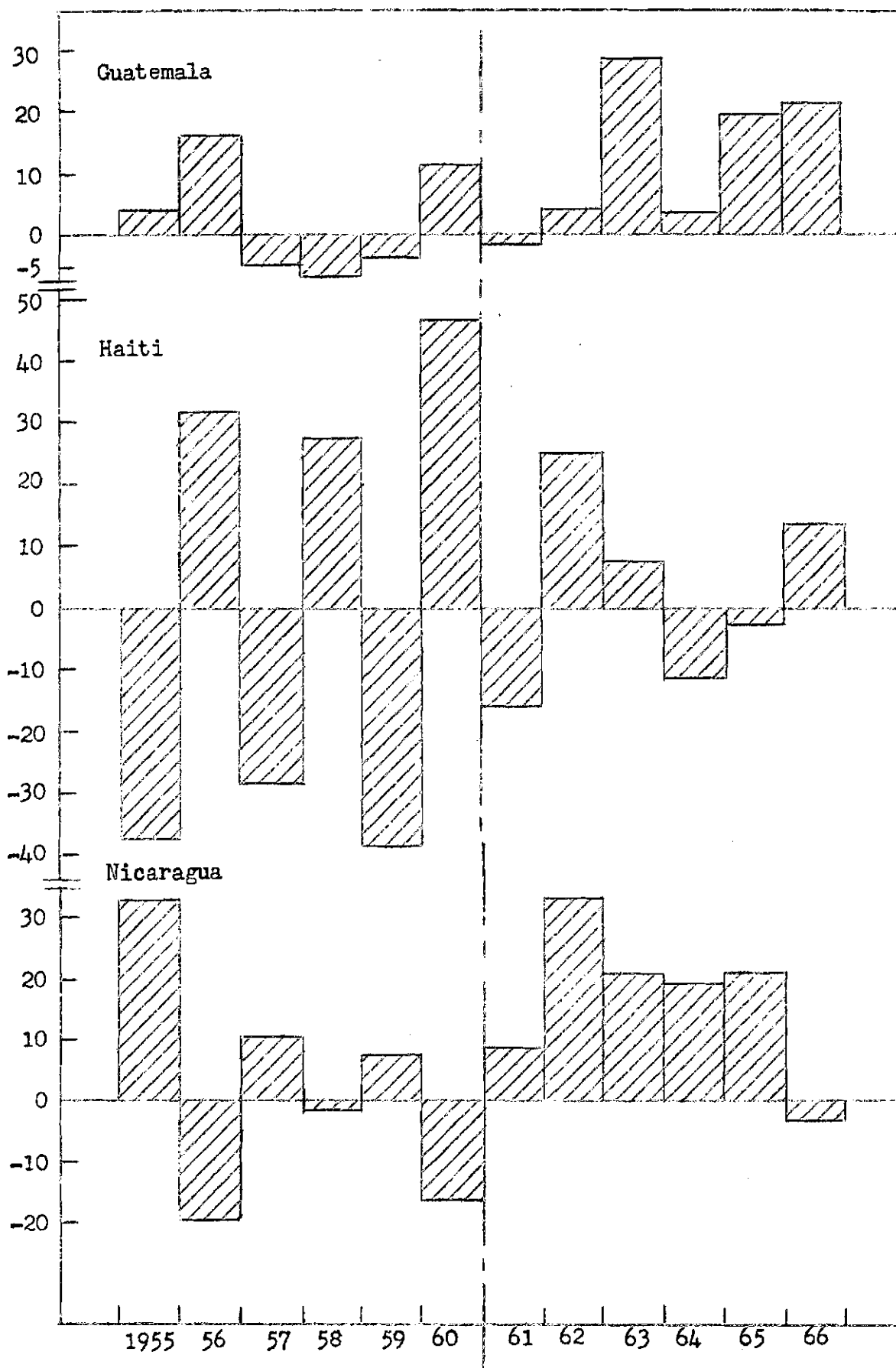
Source: The figures for Latin America were prepared from the official foreign trade statistics, and those for world exports and exports from the developed regions from the United Nations, Monthly Bulletin of Statistics.

^{a/} Excluding Cuba.

Figure I
LATIN AMERICA : CURRENT VALUE OF EXPORTS
(Percentage variation in relation to preceding year)
Natural scale

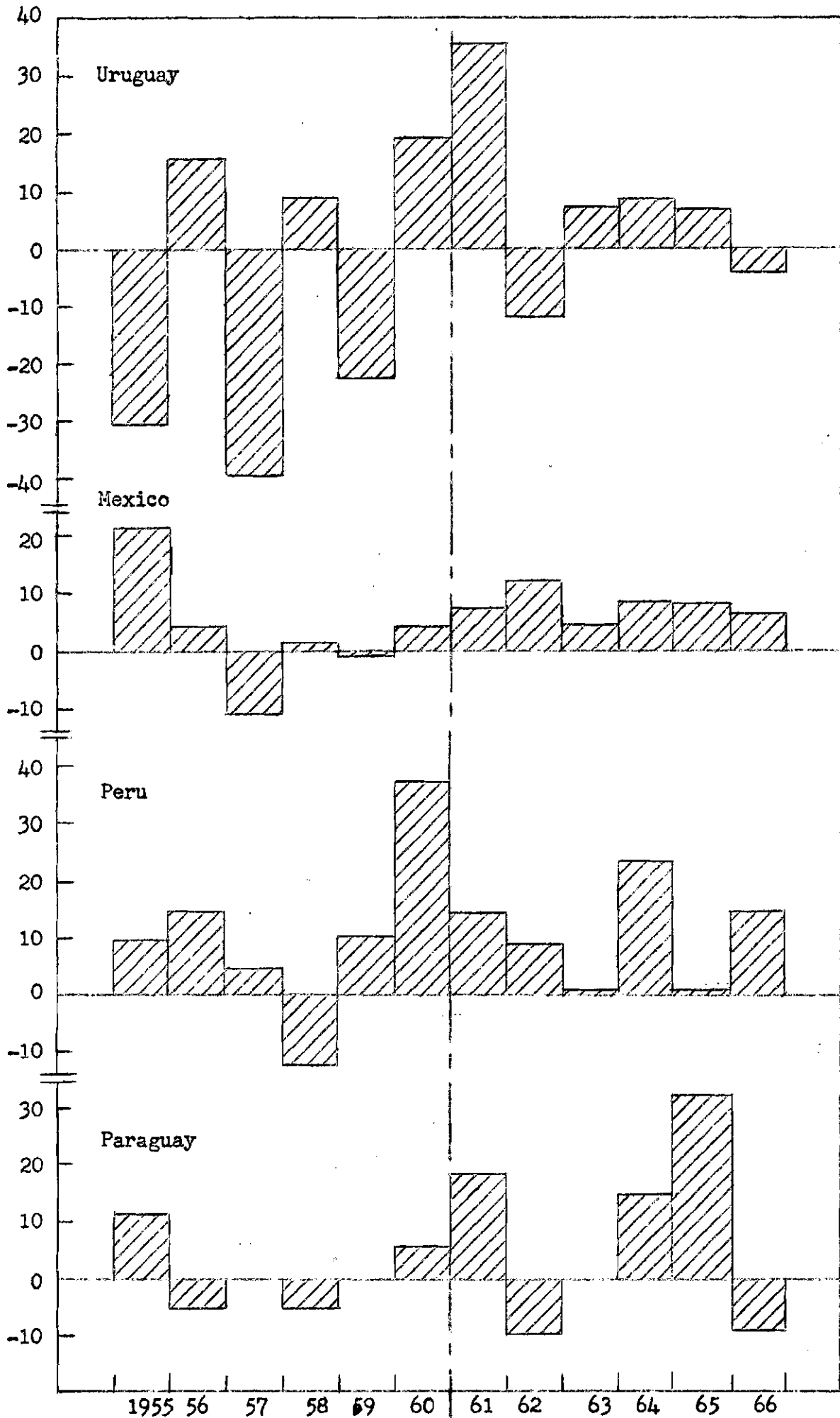


(Cont. 1)



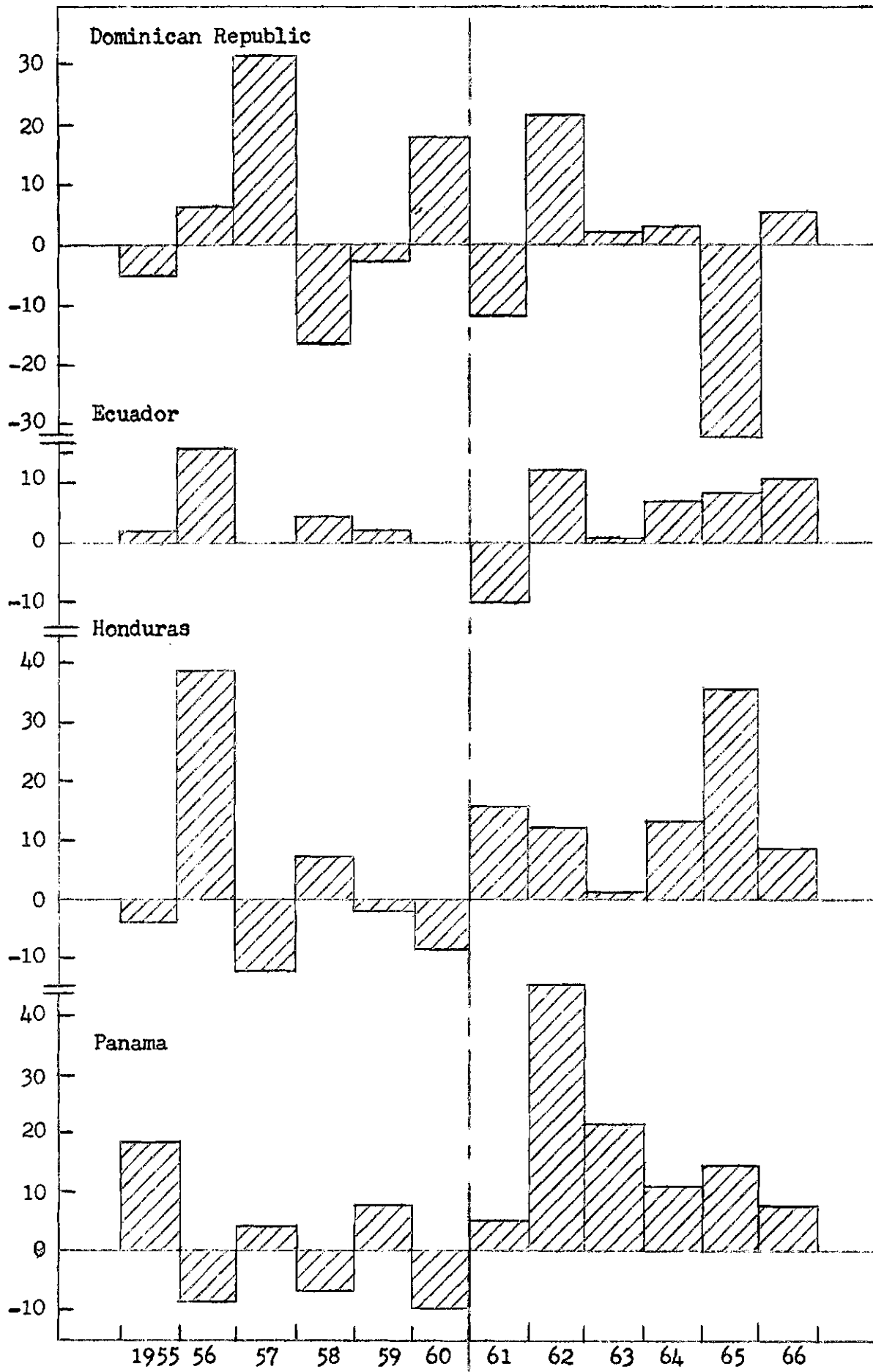
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(Cont. 2)



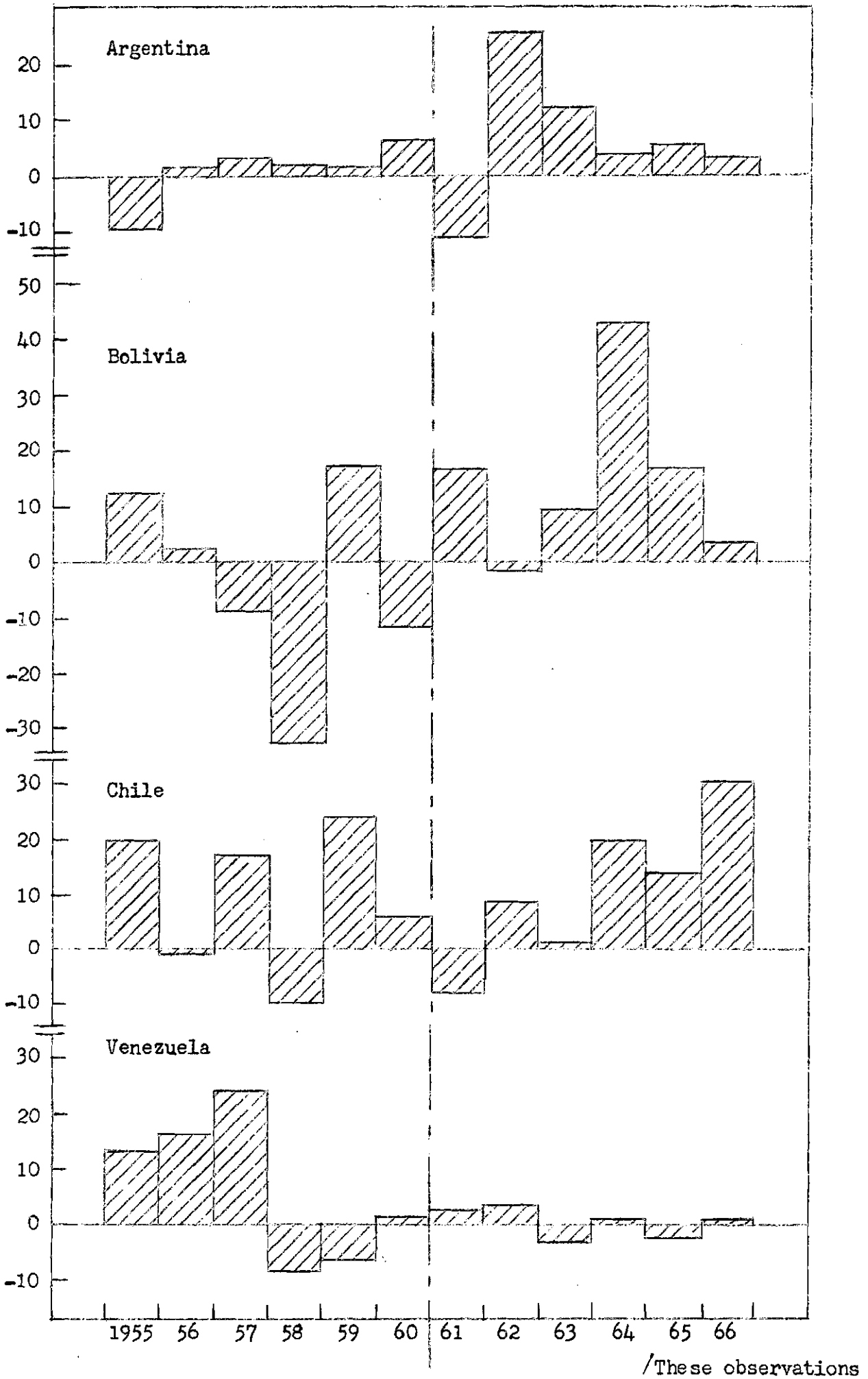
/Figure I (cont.3)

(Cont. 3)



/Figure I (cont.4)

(Cont. 4)



These observations become still more significant in the light of the fact that the growth of the total exports of Latin America has been and continues to be less rapid than the growth of world exports and of exports from the developed regions (see again table 2). If, therefore, even in 1964-66, the period of most rapid growth, Latin American exports did not achieve rates comparable with those of total world exports and exports from the developed regions, it is reasonable to assume that their immediate prospects are more unfavourable than those of the latter, especially as the special conditions of 1964-66 are tending to disappear.

The growth in Latin American exports during the last three years has in fact corresponded not only to an increase in their total quantum but at the same time to an improvement in the export unit values as a result of the rise in the external prices of a number of the main export products; and it is this latter factor which must be considered the more important feature of the recent evolution of these exports, since from 1955 onwards, until 1963, the opposite trend (that is, a decline in unit values) unflinchingly partly vitiated the annual increases registered in their quantum or physical volume (see table 3).

However, as the international quoted prices for some of the most important Latin American exports fell several times during 1966 a deterioration in the short term in export unit values is to be expected. If this occurs, the growth in the value of these countries' exports will again depend, as in 1955-63, on the relation obtained between increases in their quantum and the negative effect of the fall in external prices.

In addition, the figures given in table 3 show that the improvement in export unit values of 1964 hardly signified more than the restoration, for the countries taken together, of the level of unit values registered in 1958 (scarcely one per cent higher in the later year). In other words, the increase in the value of exports as between the two years must have been almost entirely due to the increase registered in their quantum. The improvement has, therefore, no more than relative significance: it consists in the absence of any negative movement in unit export values similar to that which occurred in the intermediate years of the period 1958-64.

Table 3
INDEXES OF THE QUANTUM AND UNIT VALUE OF EXPORTS
(Base: 1958 = 100)

	Quantum			Unit value		
	Latin America	Developed regions	World as a whole	Latin America	Developed regions	World as a whole
1955	87	88	89	111	97	99
1956	95	97	97	111	100	101
1957	99	103	102	107	103	103
1958	100	100	100	100	100	100
1959	107	107	107	95	99	99
1960	111	120	118	95	100	100
1961	113	126	124	93	101	99
1962	123	132	131	91	101	99
1963	125	143	141	94	102	100
1964	129	160	155	101	103	102
1965	134	173	167	101	104	103
1966 ^{a/}	145	182	176	102	106	104

Source: United Nations, Monthly Bulletin of Statistics.

^{a/} Preliminary estimates.

/These, however,

These, however, are not the only aspects to be considered in order to reach a long-term view of the evolution of Latin American exports. A factor of equal importance is that in spite of the higher growth rate of the exports of these countries in the last few years (from the combined effect of the partial recovery of external prices and the increase in the physical volume exported), the relative share of Latin America in the world total has continued to decline, because the growth of its exports has been in every way surpassed by the rates achieved by the exports of the developed regions. The higher growth rates of exports from these regions corresponded both to a more rapid rise in their unit export values and to a larger growth in their quantum. The figures given in table 3 show that the quantum growth of Latin American exports between 1958 and 1964 was 29 per cent, while that of the exports from the developed regions was 60 per cent. The gap between the two growth rates continued to widen during 1965 and 1966, with the result that while the quantum of Latin American exports was 45 per cent greater in 1966 than in 1958, that of the developed regions had increased by 82 per cent during the same period.

These considerations lead to a conclusion of great importance. Study of the problems which limit the growth of Latin American exports has generally been concentrated on the aspects relative to the instability of prices in the international market. Consequently, international trade policy measures have been basically directed towards reducing the present degree of instability (the international agreements on products have precisely this as their fundamental aim) or attenuating the negative effects of this instability (e.g. by the policy of compensatory credits). Nevertheless although these aspects undoubtedly are very important they cannot be considered more so than the problems relating to the growth of the quantum of the exports that is, measures designed to give these exports greater access to the markets of the importing countries. Very little progress, however, has been made in this field. Moreover, the examination in Chapter III of the main aspects of the policy relating to trade in basic products leads to the conclusion that the recommendations adopted and the commitments assumed by the developed countries for the purpose of giving the exports of the developing countries greater access

/to their

to their markets have in most cases not been applied and instead, some of the developed countries have adopted policies contrary to these recommendations and commitments, as a result of which the prospects for the expansion of the quantum of Latin American exports are inevitably limited still further.

These very unfavourable prospects for the development of Latin American exports represent one of the most serious obstacles to an improvement in the economic growth rate of the region. This rate was only 1.5 per cent on average during the last decade. A number of technical studies show that any attempt to increase the economic growth to the modest rate of 2.5 to 3 per cent would come up against a vicious circle resulting from the size of the potential foreign trade deficit, unless substantial changes were made in international trade and financial policy.

2. Exports by main regions of destination

The emphasis which the Latin American countries have placed on measures relating to greater access to the markets of the developed countries is justified not only by the fact that their total exports have been growing at a rate lower than that of world exports and that of exports from the developed regions, but also by the fact that it is precisely their exports to this region (that of the developed countries) which show the lowest rates of increase. If the figures for the period 1960-66 are examined it appears immediately that during the last three years the relative share of the exports to the group of developed countries has decreased considerably, not because there has been a decrease in their absolute values but because their increase was proportionally less than that of the exports to other regions (see table 4). However, within the group of developed countries two different trends have appeared, one of relative stagnation, corresponding to exports to the United States and the European Free Trade Association, and the other of a certain dynamism, corresponding to those to the European Economic Community and to Japan. Exports to the United States suffered an abrupt fall in 1961 when the market of that country was totally closed to Cuban

/exports. The

exports. The displacement towards other Latin American countries of the purchases which the United States previously made in Cuba (particularly sugar, molasses, tobacco and other products of less importance) was not sufficient to compensate for the decrease which resulted from the prohibition of trade with Cuba, because among other reasons, part of these purchases was directed towards countries outside Latin America and part (in the supply of sugar in particular) was reserved for the domestic producers of the United States itself. But this has not been the only cause of the relative stagnation of Latin American exports to the United States, because, in addition to sugar, Latin America's shares in its total imports of meat, fish, coffee, cocoa, wool, iron ore and crude petroleum have declined by different percentages between 1960 and 1965, in some cases as a result of discriminatory restrictions (as in the case of crude petroleum) and in others as a result of a policy of greater self-sufficiency (case of sugar). In addition to this, it is interesting to observe that during 1954-1965 there was a considerable increase in the proportion of imports deriving from Latin America subject to duty, which must be considered an additional factor in the deterioration of the conditions of access of Latin American products to the United States market (see table 5). The proportion of the imports deriving from Brazil, Chile, Colombia, Mexico, the Dominican Republic and the Central American countries paying duty underwent substantial increases during 1954-65, rising, for these countries taken together, from 28 per cent in 1954 to nearly 50 per cent in 1965. The trend towards an increase in this proportion obviously reflects changes in the composition of the exports of the Latin American countries concerned, for in only a very few cases ^{3/} have there been important changes in the tariff charges applied to the products liable to duty. Thus, although the proportion of imports paying duty is now greater than it was some years ago, the proportion which the duties represent in the value of the imports paying duty has remained practically unchanged during the period under consideration.

^{3/} For example, the duty on imports of unprocessed copper was reimposed half-way through 1958, after having been suspended for a number of years. In 1965 the application of the duty was again suspended in view of the scarcity of copper.

Table 4
LATIN AMERICA: DISTRIBUTION OF EXPORTS BY MAIN REGIONS ^{a/}
(Millions of dollars)

Regions of destination	1960	1961	1962	1963	1964	1965	First six months	
							1965	1966
United States	3 600	3 270	3 380	3 400	3 400	3 480	1 720	1 880
Canada	145	160	175	310	305	315	150	150
Western Europe	2 720	2 760	3 060	3 340	3 600	3 640	1 840	2 030
European economic community	1 580	1 600	1 810	2 020	2 180	2 190	1 120	1 210
European free trade association	1 010	980	1 030	1 050	1 100	1 100	530	600
Japan	240	340	335	410	490	510	270	300
Australia, New Zealand and South Africa	31	38	37	38	40	40	21	17
Latin America	680	570	620	750	980	1 150	500	580
Developing countries of Asia	36	71	58	72	110	100	45	55
Developing countries of Africa	75	76	92	85	140	175	55	64
Eastern Europe, including Soviet Union	265	505	565	465	530	690	305	400
Continental China	41	76	100	80	175	210	81	120
Other countries not specified ^{b/}	760	800	780	780	780	810	425	455
<u>Total</u>	<u>8 610</u>	<u>8 670</u>	<u>9 200</u>	<u>9 740</u>	<u>10 580</u>	<u>11 170</u>	<u>5 430</u>	<u>6 100</u>
<u>Percentages of the total</u>								
Developed countries	78.3	75.7	76.0	77.0	74.2	71.5	73.7	71.8
Developing countries	17.9	17.3	16.5	17.2	18.9	20.0	19.0	18.3
Socialist countries	3.8	7.0	7.5	5.6	6.7	8.0	7.1	8.9

Source: United Nations, Monthly Bulletin of Statistics.

- ^{a/} The export values which appear in this table differ from those given in table 1 in that these figures do not include adjustments to allow for subvaluation and frontier trade. The most important difference, however, concerns Venezuela, since its petroleum exports are calculated in terms of the list prices of the producing companies, while in the balance of payments statistics an adjustment is made in order to calculate the value of these exports at the effective sales prices of petroleum.
- ^{b/} Corresponds mainly to exports of Venezuelan petroleum to Amba and Curaçao, most of which are subsequently imported by developed countries.

Table 5

UNITED STATES: IMPORTS FOR CONSUMPTION DERIVING FROM LATIN AMERICAN COUNTRIES

(Percentages of the imports liable to duty)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Central America	4	4	7	9	8	12	16	17	20	26	22	18
Mexico	45	47	46	51	56	59	58	58	59	63	59	63
Dominican Republic	24	27	26	30	29	39	53	63	74	71	58	66
Argentina	57	53	51	47	55	46	35	40	40	62	51	52
Bolivia	14	10	18	49	67	51	43	35	27	..	..	..
Brazil	5	6	5	7	10	11	12	18	19	21	13	18
Chile	2	4	4	5	6	29	15	12	17	14	31	28
Colombia	7	6	7	7	10	12	16	15	14	17	16	23
Peru	53	51	50	54	54	45	40	54	53	52	39	49
Uruguay	97	96	94	91	92	95	94	94	93	..	..	..
Venezuela	81	81	82	81	80	79	74	76	77	78	79	77
<u>Total for 15 countries</u>	28	32	33	39	43	43	43	46	48	51	48	..
<u>Total, excluding Venezuela</u>	16	18	18	22	26	27	29	33	36	39	35	..
Latin America excluding Cuba	..	..	..	..	..	..	..	..	47	50	46	48

Source: Statistical Abstract of the United States 1966, U.S. Department of Commerce, World Trade Information Service, Statistical Report N° 60-46; Overseas Business Reports, N° 62-29, December 1962 and N° 66-5, February 1966.

/Exports to

Exports to the European Free Trade Association have also been relatively stagnant, though less so than those to the United States. Within the former group of countries exports to the United Kingdom (which represent nearly 70 per cent of the total for the Association) have shown a slight decrease (particularly in 1964 and 1965), compensated for by increases in exports to other countries of the group. Among the causes of the virtual stagnation of Latin American exports to the United Kingdom, it is reasonable to assume that the liberalization régime for trade between the countries of the Association has resulted in the displacement of some imports which were previously derived from the Latin American countries, in addition to which the balance of payment difficulties from which this country has suffered during the last few years have made it impose surcharges on its imports. Apart from this, the United Kingdom has carried out a deliberate policy of reducing its imports of meat and cereals which are among the most important products in its trade with Latin America.

In contrast with the trends described above, Latin American exports to the European Economic Community and to Japan have registered a steady upward trend. The expansion of sales to the Economic Community deserves special attention since it appears to contradict the anxieties and demands which the Latin American countries are expressing in relation to the common agricultural policy and to the increase in the number of countries to which preferential access is granted through the negotiation of agreements. It is obvious, however, that if the restrictive effects of the common agricultural policy and the discrimination against Latin American exports have not yet been felt to the full, this is only due to the period of gestation usually needed before new investments and promotion policies can produce the expected results. The reasons with which the Latin American countries support their belief that the common agricultural policy and the discriminatory trade policy inevitably tend in their whole orientation towards a reduction of their share in the market of the Community are not, therefore, invalidated by the increases shown by the export figures of the last few years, precisely because their

/assertion is

assertion is that these policies are substantially altering the conditions which in the past favoured the increase in the trade flows between the two regions.^{4/}

Exports to the group of socialist countries underwent a considerable increase in 1961, when Cuba's trade was redirected towards the Soviet Union and other countries of that region. This trade continued to expand at a moderate rate during the succeeding years, but received a further powerful impulse in 1965 and the first half of 1966, as a result, in part, of large cereal purchases by Continental China. It is interesting to note that most of the exports made to the socialist countries (apart from those made by Cuba) correspond to a small number of Latin American countries (mainly Argentina, Brazil, Chile and Colombia), one reason for which is probably the fact that this trade is carried out under bilateral agreements and in currencies which are not convertible on the free market, and another simply that not all the Latin American countries have shown interest in establishing commercial relations with this group of countries. This latter observation is of some importance because it reveals a situation which is in contradiction with the present trends towards an expansion of trade between the countries which have a market economy and the socialist countries. Thus, both the United States and the Western European countries are making determined efforts to increase the volume of their trade with these countries. The most recent and most important measures adopted for this purpose include, in the case of the United States, the removal of existing restrictions on the export of some 400 products of a non-strategic nature and the permission given to Eximbank to guarantee commercial loans and in certain cases to grant loans for the financing of specific exports; in addition, a bill for the extension of the most favoured nation clause to the socialist countries, has been brought before the United States Congress. These measures together constitute a radical change in the approach which has hitherto prevailed with respect to trade with the socialist region and suggest that it would be sensible of the Latin American countries not to neglect any existing opportunities for the opening of new markets in that region or the expansion of those they already have there.

^{4/} An analysis of the problems raised by the trade policies of European Economic Community and the other developed regions and by trade with the socialist countries is given in Chapter II, in particular in section B.

To conclude this brief outline of the recent evolution of exports by main regions of destination some remarks may be made on inter-Latin American trade. As is shown by the figures of table 6, the cumulative annual growth rate of inter-Latin American exports was scarcely 2.8 per cent between 1960 and 1963, but rose to 13.7 per cent in 1963-66. Inter-regional trade has grown with notable rapidity in the area of the Central American common market and is also showing a rapid increase in the Latin American Free Trade Association in response to the gradual extension of the reciprocal concessions negotiated between those countries. The difference in the annual growth rates of the two periods indicated - 8.3 per cent in 1960-63 and 16.5 per cent in 1963-66 - brings out the effect of the gradual liberalization of trade within ALALC, even though it remains true that a very large proportion of this trade is confined to 4 countries (Argentina, Brazil, Chile and Peru). However, it is worth pointing out that most of the concessions negotiated between the ALALC countries cover traditional export products and it is highly likely that the prospects of future expansion will dwindle unless determined efforts are made to extend the list of products with concessions negotiated (including, of course, manufactured products) or to make full use of the concessions already negotiated which for one reason or another have not resulted in stable trade flows. In the case of the Central American common market it may be observed that although the cumulative annual rate of 1960-63 was almost as high as that of the succeeding period, the increase of exports for the former period corresponded mainly to 1963. In any case it is more important to note that the exports of this group of countries show the highest growth rates of any within the Latin American region. Venezuela's exports, which in 1960 represented nearly a third of the inter-Latin American total, have, on the contrary, decreased persistently over the whole of the period under consideration largely because Brazil, Argentina and some of the other countries have reduced their needs for imported petroleum.^{5/}

^{5/} Both Venezuela and Bolivia are now legally members of ALALC, even though they have not yet negotiated the lists of products for which reciprocal concessions will be made.

Table 6
LATIN AMERICA: INTER-LATIN AMERICAN EXPORTS
(Current values in millions of dollars)

	1960	1961	1962	1963	1964	1965	1966 ^{a/}	Cumulative annual growth rates	
								1960-63	1963-66
Latin American Free Trade Association	387.0	357.8	416.2	491.3	641.9	722.6	776.1	8.3	16.5
Central American Common Market	40.4	41.0	45.6	71.5	107.6	121.5	139.0	21.0	24.7
Venezuela	231.8	167.4	185.4	166.9	200.8	149.2	151.0	-10.3	-3.3
Rest of Latin America	14.8	19.3	11.9	14.0	8.4	25.4	27.2	-1.8	24.7
<u>Inter-Latin American Total</u>	<u>684.0</u>	<u>588.5</u>	<u>659.1</u>	<u>743.7</u>	<u>958.7</u>	<u>1 018.7</u>	<u>1 093.3</u>	<u>2.8</u>	<u>13.7</u>

Source: Official foreign trade statistics of the Latin American countries.

^{a/} Preliminary figures.

Note: The figures for the period 1960-64 present some discrepancies with those published in the United Nations Monthly Bulletin of Statistics, which it has not been possible to eliminate. The most important discrepancy, which occurs in the figures for 1965 and 1966, is due to the lack of information on Cuba.

3. Evolution of imports and of the terms of trade effect

In the first part of this chapter it was mentioned that Latin American exports registered higher growth rates in the triennia 1961-63 and 1964-66 than in 1950-60. These higher growth rates obviously must have increased the region's purchasing capacity, taking into account, of course, that the total purchasing capacity depends not only on the income resulting from exports but also on the net effect of the variations in the exchange prices ratio and on net capital transfers. Since the financial aspects of trade will be treated in another part of this report the present section will be concerned only with the trends observed in the evolution of imports and in the terms of trade effect.

Comparison of the growth rates of exports and imports during the 50's shows that the growth of the latter was always more rapid than that of the former, owing partly to the fact that the net terms of trade effect was relatively favourable during the first half of the decade and partly to the net inflow of foreign capital. The evolution of the last few years is, however, in striking contrast with this. Thus, in 1963 the 5 per cent increase in exports coincided with a 4 per cent decrease in imports, and in 1965 a 4.6 per cent increase in exports allowed a rise of only 2.9 per cent in imports. And even though in the other two years of the most recent period the growth in total imports slightly surpassed that of exports, it cannot be considered that this growth adequately reflects the increase which has occurred in the income from exports. The conclusion to be drawn from these figures is, therefore, that the increase in total imports has been limited by the need of some of the countries to reconstitute their foreign exchange reserves and by the increasing weight of the servicing of the external debt in the balance of payments of others.

Although it is not here possible to consider the different causes of the large differences which can be observed in the evolution of imports by countries as shown in table 7, it may be remarked that in general the greatest increases corresponded to countries in which the problem of the external debt has not yet become acute, while the increases were very small (and in some cases there were large decreases) in the countries which were forced by the problem of the external debt to impose severe import restrictions or to reinforce those already in existence.

/Table 7

Table 7
LATIN AMERICA ^{a/}: ANNUAL VARIATIONS IN THE CURRENT
VALUE (FOB) OF IMPORTS

	Cumulative annual rates			Annual variations			
	1950-55	1955-60	1960-63	1963	1964	1965	1966
				1962	1963	1964	1965
Argentina	2.4	2.0	-7.8	-27.8	10.1	10.7	-8.0
Bolivia	5.8	-2.7	13.0	6.5	-	29.6	3.9
Brazil	3.3	3.3	0.6	-0.8	-16.1	-13.4	28.9
Chile	9.1	7.0	3.7	-4.2	8.0	-	17.6
Colombia	13.0	-4.3	-0.9	-7.5	15.7	-24.5	38.2
Costa Rica	13.7	4.9	4.1	10.8	10.6	28.8	-1.9
Dominican Republic	18.4	-2.1	22.5	25.0	15.7	-36.7	32.2
Ecuador	18.3	3.0	3.9	6.2	17.6	10.7	-3.2
El Salvador	12.6	5.8	7.6	21.7	26.4	5.1	14.5
Guatemala	7.1	5.4	7.4	21.9	22.7	14.1	6.2
Haiti	7.8	-2.2	2.7	-18.3	-5.2	12.5	-3.4
Honduras	9.5	3.4	9.6	18.9	7.9	16.8	15.3
Mexico	8.1	6.1	1.5	8.4	20.5	4.4	3.1
Nicaragua	18.7	-1.0	15.2	15.2	20.9	24.5	9.5
Panama	4.3	7.8	14.5	13.2	3.7	13.6	7.8
Paraguay	11.2	5.7	0.8	-	9.7	17.8	9.4
Peru	12.7	4.5	14.0	8.4	-	25.5	12.2
Uruguay	-1.1	-2.0	-19.0	-27.0	11.2	-23.1	15.4
Venezuela	10.1	3.0	-6.8	-10.7	14.6	11.2	-0.8
<u>Total</u>	7.1	2.8	0.5	-4.0	7.9	2.9	8.8

Source: Prepared from the official balance of payments statistics.

^{a/} Excluding Cuba.

/The relatively

The relatively slow growth of the total of imports becomes still more striking in the light of the fact that the terms of trade effect ceased to be negative in 1964. For the sake of exactness it must be pointed out that the improvement in the external prices of the main export products could not quite produce an equal degree of improvement in the terms of trade effect because the increase in export prices was partly vitiated by an increase (though of smaller proportions) in import unit values (see table 8). All the same the important point here is that the improvement which did occur in the terms of trade effect combined with the increases registered in the quantum of exports contributed during 1964-66 to an increase in the purchasing power generated by these exports. A part of this greater purchasing power had, however, to be used to pay off the trade debts accumulated by some of the countries and the financial servicing of foreign capital, thus limiting the possibility of a more rapid expansion of the total imports.

The general conclusion which can be drawn from the trends observed in Latin America's foreign trade is that, in spite of the relatively favourable evolution of exports in the most recent period, the position of Latin America in the world as a whole is continuing to deteriorate. This makes it vital to bring about a reorientation of the trade policies of the developed regions - which absorb three quarters of Latin America's exports - such that suitable conditions can be created for promoting a more rapid growth of their imports. Under present conditions the problems of the access of primary products to the markets and the maintenance of remunerative prices for them continue to be the main determining factors in the general evolution of exports; but this does not mean that the aspects relating to trade in manufactures and semi-manufactures can be neglected, for, although these still have little importance in the total of exports, they can contribute to the growth of this total and, to the extent that they do so, they will make it less vulnerable to the fluctuations characteristic of trade in primary products.

Table 8

LATIN AMERICA: INDEXES OF THE QUANTUM AND UNIT VALUE OF IMPORTS,
THE TERMS OF TRADE EFFECT AND THE
PURCHASING POWER OF EXPORTS

(Base: 1958 = 100)

Years	Imports		Terms of trade effect a/	Purchasing power of exports b/
	Quantum	Unit value		
1950	75	88	119	94
1951	91	101	120	95
1952	86	105	110	83
1953	77	100	113	93
1954	91	95	125	101
1955	91	97	115	100
1956	94	99	111	105
1957	103	102	105	104
1958	100	100	100	100
1959	93	100	95	102
1960	98	98	96	107
1961	101	98	95	107
1962	105	98	93	114
1963	105	97	97	121
1964	113	98	103	133
1965	114	99	102	137
1966	117	100	102	148

Source: United Nations, Monthly Bulletin of Statistics.

a/ Defined as the quotient of the export unit values divided by the import unit values.

b/ Defined as the product of the terms of trade effect and the quantum of exports.

Chapter II

A. RECENT TRENDS AND ACTIONS

The statement and arguments with which the major international trade centres support their trade policies suggest that world trade policy is being decidedly oriented towards more multilateral, universal and liberal conditions for trade and for international payments. The growth of trade relations between developed countries with different economic systems and the increasing frequency of negotiations in this field also seem to indicate, in spite of the marked regionalization which has occurred in some aspects of trade as a result of economic integrations such as the EEC and the EFTA, that these improving conditions are being extended ever more universally.

In spite of these trends and of the considerable expansion of world trade, associated with growing prosperity in the developed regions, a climate of apprehension continues to prevail in the developing countries. It may then be asked if, in view of a philosophy which seems to lead to international action ostensibly aimed at solving the problems of the economic growth of the developing countries and to more active consideration of their difficulties in connexion with trade, finance and technical assistance, the frankly negative conclusions and the feeling of frustration which these countries have derived from the course of events in the present decade are justified.

It should be mentioned, in the first place, that the developing countries have not so far achieved the modest targets fixed for the decade in the Punta del Este Charter and that they are still very far from being able to establish an even moderately satisfactory growth rate. In these circumstances the economic and technological gap between them and the developed countries is widening.

Secondly what has really been done under the national policies followed by the major industrial countries as regards their decisions on foreign trade and those relative to the protection granted to their domestic productions has not only been incompatible with the general formulas

/concerning the

concerning the liberalization and expansion of trade between countries in different stages of development but has represented a discrimination in comparison with the treatment granted to certain countries or groups of countries. It has become a matter of great urgency, therefore, to re-state these facts in clear and precise terms, for although already widely known and accepted, they still have not led to effective decisions on the part of the developed countries. It is felt, in sum, that a determined effort should be made to reach a precise formulation of the mechanisms and means of action which can ensure for the developing countries the fulfilment of standing commitments and the establishment of decisions that are satisfactory in relation to the objectives which have been accepted or assigned at the international level.

1. The UNCTAD's approach to the foreign trade problems of the developing countries

Convinced that the international trade structure governing their trade relations with the market economy and centrally planned developed countries was not adequate to their needs and convenience and that, on the contrary, it tended to increase existing inequalities in trade and growth, the developing countries on the occasion of the first UNCTAD organized an attempt to modify the conditions prevailing in the field of international trade and development.

In this occasion the Latin American countries, brought into cohesion by the Alta Gracia Charter and by the previously agreed common conclusions on the main themes discussed in the first Conference, showed a notable unity in argument and in action. It is not here relevant to consider to what extent their solidarity of attitude contributed to the success of the joint action on the part of the developing countries in Geneva in having the recognition of their interests included in the conclusions and recommendations of the Final Act; but it is certain that this unity of conception and attitude served to create a common spirit capable of aligning developing countries and regions, which had previously been isolated as a result of their geographical and economic situation and of the policies used by the great powers or by trade groups of industrialized countries, behind common aims.

/From the

From the time of its constitution by the General Assembly towards the end of 1964 the UNCTAD has been engaged in intense activity. The Trade and Development Board, which is the main executive body functioning between the plenary sessions of the Conference, has so far held four meetings. The first two were mainly devoted to the organization of the Board and its dependent bodies and to the formulation of the programme of work that had to be carried out in order to advance further in the study of the problems which it was made responsible for and, through analysis and discussion at the appropriate technical and political levels, obtain solutions compatible with the ever more pressing needs of the developing countries.

On discussing in chapter III the main themes relating to the work which has been done by the UNCTAD and its dependent organs (primary commodities, manufactures, financing, transport, etc.) concrete references will be made to the progress which has so far been made in the different problems in relation to the demands of the developing countries in general and the interests of the Latin American countries in particular. All this work on the part of the UNCTAD which is being carried out as a preliminary to the second Conference to be held in February 1968, must serve as the means by which the developing countries secure a basic acceptance on the part of the developed countries of their point of view with regard to a broad spectrum of commitments and fields of negotiation. This line of action, by first creating the corresponding reciprocal attitude on the part of the developed countries, will enable the appropriate mechanisms through which the necessary negotiations can be conducted in a practical and continuous style, to be established and the implementation of standing commitments to be guaranteed. It will also enable the fulfilment of the commitments which may be entered into between developed and developing countries in the second conference itself, in other international circles or in later negotiations, with a view to a better ordering of their reciprocal trade and financial relations and to a more rapid and widespread development of international trade, to be made subject to assessment.

/Until this

Until this is done the resolutions and recommendations contained in the Final Act will only be morally binding on the governments which subscribed to them, a bond which was in any case made conditional on the numerous reservations recorded by a considerable number of developed countries and even by some of the developing countries. The very expression of those reservations shows that there still exist many controversial aspects requiring further analysis and discussion.

This raises the question, what shape are the commitments or concrete definitions at which the developing countries aim to be given in the second Conference? This is no longer a matter of expressing the points of agreement or disagreement in a final act or resolution, but of creating institutional mechanisms capable of serving as an adequate framework for the commitments, without prejudice to the maximum use of those existing within the framework of the UNCTAD or of other international or inter-governmental organizations. No hesitation should be felt in supporting substantial alterations in the existing mechanisms if these have shown themselves not to be appropriate or sufficiently far-reaching for the purposes for which they were established. Thus, in the institutional aspect the important point is to support within the UNCTAD framework the creation of one concrete mechanism for negotiations and another for consultations and assessment of results.

Once a mechanism for negotiations has been created it will immediately be necessary to establish an order of priorities for the treatment of the group of problems which have been under discussion in the UNCTAD, based on their urgency and on the progress that has been made in preparing formulas or alternatives making the attainment of concrete agreements feasible and in assessing the situations and policies from which an allocation of responsibilities to the various parties can be derived.

Since the time of the third Board emphasis has been laid on the need to bring to the second Conference proposals which have been given a sufficient degree of preparation for concrete results to be reached.

/However, the

However, the provisional agenda established in the fourth Board, which is to be revised in the fifth sessions to be held in Geneva from 15 August to 8 September 1967, includes not only points and problems on which an understanding is feasible but others for which it is certain that the respective positions of the developed and developing countries and even those of countries within the same group are extremely divergent, and this is likely to prevent any effective progress being made in the Conference. It is the responsibility of no-one more than the developing countries to direct the activities of the Conference, but so far they have shown a certain want of decision with regard to the order of priority and the system of action under which the fundamental problems are to be approached, which, if not corrected in the stages to come, may largely vitiate the efforts made in connexion with the Conference.

The developing countries concluded the first Conference with a joint declaration which was included as an annex in the Final Act, and in the fourth Board again affirmed their position of solidarity with respect to the situation of and solutions for the fundamental problems affecting their development. They have now established a mechanism of co-ordination which operates alternatively or indifferently in New York and in Geneva. Both groups have been holding meetings, but it is necessary that they should be brought into fuller co-ordination and that the questions relating to the composition of the Geneva group, which have arisen from the fact that several developing countries which are members of the Board and some others which wish to act as observers do not have diplomatic representatives in that city, should be settled. The problem of the transfer of information between the two groups and the analysis of the work being carried by the UNCTAD secretariat and by the meetings of experts held by the latter must also be solved.

There are certain difficulties which it is essential to overcome during the sessions of the fifth Board. Although these are partly merely formal they could to some extent affect the necessary co-ordination of the positions of the developing countries. However, this would probably not occur in the case of Latin America since the countries of that region all, with the exception of Cuba, belong to a special

/co-ordination committee

co-ordination committee (the Ad-Hoc Committee on Latin American Co-ordination - CECLA) whose purpose is precisely to co-ordinate and harmonize the attitudes and positions of the Latin American countries regarding international trade policy, with a view, in particular, to the activities of these countries in the second UNCTAD. The third meeting of the CECLA at the expert level, held at Mexico City from 11 to 23 June 1966, in addition to approving a series of common reports, subsequently defended by the Latin American countries in the fourth Board, fixed a provisional time table of meetings, which are to culminate in a meeting of the CECLA at the ministerial level. On this occasion the Latin American countries will decide their position and strategy for the second UNCTAD, and will attempt to determine in what respects their activities can be co-ordinated and united with those of other developing countries and regions. In this latter connexion it is considered that the meeting of the seventy-seven developing countries to be held in Algeria eight to ten weeks before the second UNCTAD will be of decisive importance.

2. The work of the GATT towards the expansion of world trade, the progress of the Kennedy Round tariff negotiations, and other means of action

The scope and limitations of the General Agreement on Tariffs and Trade (GATT) ^{1/} - of which 12 countries of the geographical region of Latin America are now members, one with the status of provisional member ^{2/} - have been studied in earlier ECLA reports and particularly in documents concerned with the analysis of the salient aspects of international trade policy and with establishing conclusions and determining common lines of action to be taken in Latin America. Although it was created in 1948, GATT only began to ascribe any importance to the problems of the developing

1/ See ECLA, Latin America and the United Nations Conference on Trade and Development (ST/ECLA/Conf.13/L.2), Chapter IV.

2/ Argentina, Brazil, Chile, Cuba, Dominican Republic, Guyana, Haiti, Jamaica, Nicaragua, Peru, Uruguay, and Trinidad and Tobago.

countries after the publication of the Haberler report ^{3/} in 1958, and, somewhat more emphasis, after the meeting of Contracting Parties at the ministerial level towards the end of 1961. Obviously this body, which in spite of the limitations resulting from its lack of universality, is the main general forum for the negotiation of trade questions, could not remain indifferent to the claims and demands on the developed world represented by the United Nations Development Decade. Thus, after the creation of Committees II and III ^{4/} the Contracting Parties approved in the meeting at the ministerial level in May 1963 an action programme "whose complete fulfilment would undoubtedly have constituted a significant step towards the liberalization of world trade and towards an increase of the share of the developing countries in it.

^{3/} This report, on Trends in International Trade (Sale No. GATT/1958-3), was an important turning point in the activities of GATT, and was prepared by a panel of experts appointed at the twelfth session of the Contracting Parties to assess the basic trends in the field of international commodity trade, with special reference to "the failure of the trade of the less-developed to develop as rapidly as that of the industrialized countries, excessive short-term fluctuations in prices of primary products and widespread resort to agricultural protection."

^{4/} These Committees were established in November 1958 to put into practice a co-ordinated action programme of GATT for the expansion of international trade, whose formulation was one of the results of the deliberations on the Haberler Report. Committee I was made responsible for studying the possibility of organizing a fifth round of tariff negotiations and determining the scope, rules, conditions, etc. of these negotiations, which actually took place as the so-called "Dillon negotiations." Committee II was made responsible for affairs related to the agricultural products trade, in particular the use in and effects on in international trade of non-tariff agricultural protection measures. Committee III was formed for the purpose of studying and reporting to the Contracting Parties on the special obstacles to the expansion of the developing countries' trade. The activities of this last Committee were gradually extended until 1965, when it was replaced by the Committee on Trade and Development. The work of this Committee has mainly been concerned with the identification of the barriers to trade in products of special interest to the developing countries, with efforts towards the elimination of these barriers, with studies of development plans and the export potential of a number of countries, and with the study of other measures (e.g. preferences, trade promotion, etc.) for increasing the exports of the developing countries.

The non-fulfilment by the developed countries of the stipulations contained in the GATT Action Programme ^{5/} and in particular of commitments clearly and expressly established reveals both the inadequacy of the mechanisms for the implementation of certain obligations and the lack of any resolute policy to fulfil them on the part of the developed countries, whether or not justified by safeguard clauses established in the General Agreement. The frustration of the Action Programme by these countries destroyed the hopes and trust which the developing countries might have placed in it.

A recent report made by the GATT secretariat, based on complaints expressed by the Contracting Parties, shows that many import restrictions have been retained which had been qualified as residual and inconsistent with the Agreement and that it has not even been possible to obtain from the countries applying them an undertaking to establish a programme or to fix final dates for their elimination.

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- 5/ (a) Standstill Provision: "No new tariff or non-tariff barriers should be erected by industrialized countries against the export trade of any less-developed country in the products identified as of particular interest to the less-developed countries."
- (b) Elimination within a period of one year of quantitative restrictions on imports from less-developed countries which are inconsistent with the provisions of GATT.
- (c) Duty-free entry for tea and tropical timber, and action in benefit of other tropical products.
- (d) Elimination of tariffs on primary products.
- (e) Reduction and elimination of tariff barriers to exports of semi-processed and processed products from less-developed countries.
- (f) Progressive reduction of internal fiscal charges and revenue duties.
- (g) Reporting procedures regarding the fulfilment of these by the industrialized countries.
- (h) Measures for facilitating the efforts of less-developed countries to diversify their economies, strengthen their export capacity, and increase their earnings from overseas sales.

The six EEC countries did not support the Action Programme, arguing that point (h) is imprecise and has little positive content.

/With regard

With regard to the elimination of residual restrictions, the developed countries have insisted that any developing countries which may be affected by their retention should specify the cases in which they are of real detriment or constitute a potential obstacle to their exports. The developing countries do not accept this principle and hold that the depressive effect of the restrictions results from their mere existence, even when at a given moment there is no trade flow directly affected by them. Moreover, it is unreasonable to talk of an assessment of trade flows which as the case stands effectively do not exist just because of the restrictions.

Another aspect, related to that of quantitative restrictions, is the existence of special mechanisms such as state trading in specific products, production, consumption and export subsidies, and fiscal levies, all of which affect access to the markets of the countries applying them, when they do so in the case of products of special interest to the developing countries. GATT has prepared an important report on the matter, based on information supplied by the industrialized Contracting Parties under the standard consultation procedure. The developing countries have recently been stressing the fact that some of the industrialized countries' instruments of foreign trade regulation could be used in a positive manner, and, for example, have recommended to these that in applying their state purchases machinery they should, competitive factors being equal, make their purchases in developing countries.

The hopes of the developing countries in GATT were again aroused in May 1964 by the inauguration of the Kennedy Round tariff negotiations, for these cover not only the field of customs tariffs, as did the five previous series of negotiations held in GATT, but also equally important aspects relating to trade provisions for market access.

Moreover, for the first time the provisions stipulated in the new part IV of the General Agreement were applied to concrete negotiations. The bases of negotiation agreed by the Contracting Parties, having regard to the situation of the less-developed countries, include some

/of the

of the principles and objectives embodied in the new chapter of the GATT, concerning, in particular:

- (a) the elimination of products of special interest to the developing countries from the lists of exceptions established for developed countries which negotiate across the board;
- (b) the inclusion of these same products in the lists of the industrialized countries which negotiate product by product;
- (c) the possible reduction of tariffs on these products by more than the 50 per cent envisaged as the general rule for across the board reduction;
- (d) the immediate application of tariff reductions for products for which developing countries, individually or collectively are the main supplies, instead of the application of the general mechanism of progressive reduction over a period of five years;
- (e) a provision for preventing the developed countries from withdrawing products of interest to the developing countries from their offers in the final stage of the negotiations, on the basis of non-reciprocity on the part of other developed countries;
- (f) the contributions of the developing countries will be made in accordance with the principle of "non-reciprocity", that is, no less-developed Contracting Party should be expected to make contributions during the trade negotiations which are inconsistent with its needs as regards its economic development, its financial situation, and its foreign trade;
- (g) the maximum elimination of tariff and non-tariff barriers to the entry of tropical products should in relevant cases be combined with a compensation for the loss of the preference which would result from application of the most-favoured-nation

/clause, if

clause, if those less-developed countries which now enjoy preferences in the markets of certain industrialized countries so agree;^{6/}

- (h) The establishment of acceptable conditions of access to world markets for exports of temperate-zone products, in particular by means of suitable international agreements.

The GATT Committee on Trade and Development held a meeting in Punta del Este from 16 to 21 January 1967 which was concerned with, among other aspects, the assessment of the progress made in the Kennedy Round negotiations relative to the demands and needs of the developing countries. Although the main part of their deliberations was conducted privately, the general statements made in the plenary meeting and the declarations of some of the main participants weeks before the meeting enable certain provisional conclusions to be drawn concerning the extent to which the eventual results of the negotiations are likely to satisfy the expectations of the developing countries and, less generally, to meet the demands expressed by the countries of the Latin American region taking part in them (Argentina, Brazil, Chile, Dominican Republic, Jamaica, Nicaragua, Peru, Trinidad and Tobago, and Uruguay).^{7/}

Of the Latin American countries taking part in the negotiations only Argentina, which is simultaneously negotiating its final entry as a full member of GATT, has made any sizable offers; the others have in general confined themselves to mentioning their contributions towards the success of the negotiations, in some cases emphasizing that they have not so far obtained from GATT a reciprocal treatment in correspondance

^{6/} This problem has been debated at length in the UNCTAD (see resolution A.II/1 paragraph 6), but little progress has been made in establishing concrete formulas for this compensation.

^{7/} Cuba, Guyana and Haiti are members of GATT but are not taking part in the negotiations.

with the concessions already granted by them. Thus, Uruguay, which has had recourse to Article XXIII and has been authorized by the Contracting Parties to reduce the number of its concessions on account of the decrease in the value of the counterpart concessions which have been made to it, has not in fact done so, which must be interpreted as a new offer on its part. In any case, in spite of the interpretation of the concept of "non-repricocity" indicated in point (g) above, the industrialized countries have been stressing the need for the developing countries to extend or improve their initial offers in return for the benefits which they are to receive from the negotiation. This seems also to have occurred in the bilateral negotiations, in which the industrialized countries have been insisting that certain dispensable products or products competing with equivalents produced in the developing countries should be liberalized by the latter.

In order to give a rough idea of the size and extent of the offers made by the industrialized countries on products which the Latin American countries have brought to notice in the relevant circles of GATT or in the negotiations themselves as being of interest to them to export, table 9 shows the offers made by the EEC, Japan, United States and United Kingdom, indicating whether these have been below, above or equal to 50 per cent.

However, for a correct interpretation of the sizes of the offers shown in the table it should be remembered that it has generally speaking been not so much the customs duties as other trade obstacles which have been hindering the entry of the products of interest to the developing countries. It does not seem that the Kennedy Round negotiations have made much progress in this connexion.

/Table 9

Table 9

OFFERS OF SOME OF THE COUNTRIES PARTICIPATING IN THE KENNEDY ROUND
NEGOTIATIONS ON PRODUCTS DECLARED BY THE LATIN AMERICAN
COUNTRIES TO BE OF SPECIAL INTEREST TO THEM

(Number of offers)

Nature or size of the offer	Japan	United Kingdom	United States	European Economic Community
Reduction of 50 per cent	282	354	379	252
Of which:				
Probable withdrawal	(17)	(84)	(1)	-
Probable modification	-	-	(1)	-
Subject to a special condition	-	(13)	(1)	(22)
Eventually less than 50 per cent	-	-	(19)	-
Reduction of less than 50 per cent	63	1	31	102
Of which:				
Probable withdrawal	(4)	-	-	-
Subject to a special condition	-	-	-	(6)
Reduction of over 50 per cent	4	-	-	2
Elimination of the duty and consolidation of the elimination	10	32	22	1
Consolidation of the standing duty	4	7	2	19
Consolidation at zero level	83	60	30	23
Exemptions already consolidated	31	29	82	73
<u>Ad hoc</u> groups on products	5	12	-	-
Other offers	19	26	61	-
<u>Total number of offers</u>	<u>501</u>	<u>521</u>	<u>657</u>	<u>472</u>
Number of tariff items	377	392	398	375

Note: The number of offers is greater than the number of tariff items because the offers concern specific products several of which may be comprised within a single tariff item.

/Some other

Some other developed countries, including Austria, Denmark, Iceland, Norway, Sweden and Switzerland have in principle offered reductions of 50 per cent on their tariffs on all industrial products. Finland has followed the same principle but has made its offer subject to a long list of exceptions, while Australia, Canada, Eire, New Zealand, Portugal and South Africa have presented positive lists of offers. All the countries mentioned have also offered concessions in the sector of agricultural products, some of which are to be considered in the ad-hoc groups on cereals, meat and milk products. Czechoslovakia, in addition to its across the board offer (of great value relative to its foreign trade system), has provided data on the volume of imports of which will make up its commitment and Poland has made an offer relative to its import volumes.

It is difficult to predict the final result of these complex negotiations. The equilibrium created between the industrial and agricultural sectors must be deeply considered and the results of the special negotiations between developing countries will not be known for some time to come. The fact is, however, that only in the case of cereals has any great progress been made in the negotiations, and there even exist substantial differences of opinion concerning the aims and scope of a world agreement for the ordering of the wheat and animal fodder cereals trade depending on whether or not this is considered in relation to the problem of world food aid.

As regards tropical products, whose trade is of interest to a considerable number of Latin American countries, the initial offers and the intention of improving them expressed by the main industrialized countries, if they are made final, will constitute a step towards the liberalization of this trade and the reduction of the existing discriminatory tariff preferences.

The less-developed Contracting Parties taking part in the negotiations have been urging that the tariff and trade reductions are inadequate for the promotion of their exports of processed products^{8/} and have stressed the need for positive understandings in the field of general, non-discriminatory

^{8/} See, debates of the GATT Committee on Trade and Development (Punta del Este, 1967).

preferences to be reached in order that, on the basis of the greater access to the markets of the developed countries thus provided for their processed and semi-processed products, the development problems of their export industries can be overcome. Among the formulas proposed in the Kennedy Round negotiations, which might, if carried out, have constituted a first practical step, though one of extremely limited scope, towards such a system of preferences the following may be mentioned:

- (a) the immediate application, for products of interest to the developing countries and in favour of these countries only, of the reductions otherwise applicable gradually. This would constitute a temporary and degressive preference for specific products;
- (b) the granting of reductions on products which in the negotiations between developed countries would be retained in the list of exceptions;
- (c) the elimination, for developing countries only, of certain quantitative restrictions or prohibitions which for the moment would continue to be applied to imports from other developed countries.

As regards the negotiations between developing countries, it appears that the work being done in this connexion has been greatly held up. Moreover, of the 60 developing member countries of GATT only 20 have shown interest in taking part in the negotiations; of these seven belong to the Latin American region and five are members of ALALC. Although the principles of the negotiations have not yet been defined, it is understood that the industrialized countries are not to demand the extension to them of the benefits agreed by the developing countries among themselves, although it may be assumed a priori that these will be extended to all the less-developed members of GATT and eventually to developing countries which do not belong to that body. The fact that not much interest is felt in the negotiations, as appears from the small number of participants, suggests that the concessions have less scope than was originally agreed, and it is

/even possible

even possible that the transactions will continue as a series of special negotiations^{2/} after the end of the Kennedy Round, envisaged for 30 June 1967.

B. THE ORIENTATION OF THE TRADE POLICIES OF THE MAJOR CENTRES IN
RELATION TO THEIR TRADE WITH LATIN AMERICA

1. The trade policy of the EEC

In spite of the progress made in the last few years in establishing the common policies envisaged in the Rome Treaty, the EEC cannot be said to have achieved the necessary unity in matters of foreign trade policy, even though there are a number of arrangements - some very important - such as the common external tariff, whose second stage of harmonization began on 1 July 1966, the agreements of association with Greece and Turkey, and the united conduct of their trade negotiations in GATT under the Executive Committee of the Community in accordance with an express mandate of the Council of Ministers, which do partially conform to this unity. There remain to be defined a number of aspects such as the import and exception régimes retained by some of the member countries and certain agreements with third parties, in particular with the Eastern European markets. This duality in the conduct of its trade and financial affairs makes it doubly difficult for countries which have certain problems relating to the EEC to discover not only appropriate lines of action and solutions but even the forum of discussion or negotiation in which an understanding can be reached. Apart from this, some of the member countries of the Community seem to assign a secondary importance to their relations with Latin America in direct opposition to the attitude of the Community towards other regions. This provides a general picture which will make for more correct analysis and assessment of the meagre results so far obtained in the bilateral or collective conversations between the Latin American countries and the EEC.

^{2/} Although an agreement that the developing countries may establish advantages among themselves which are not extendable to the developed countries exists in principle, it would be best if this was not considered a derogation of the most-favoured-nation clause but as arising, for example, from a more flexible interpretation of article XXIV in the light of the provisions of the new part IV of the General Agreement.

In the EEC/Latin America contact group, which has been holding informative meetings in Brussels since halfway through 1964, the Latin American countries have been objecting fundamentally to three aspects of the Community's policy.

The first concerns the application of extremely protectionist policies and provisions in the sector of temperate zone agricultural products, whose effect will be to increase the EEC's self-sufficiency in these products ^{10/} to the detriment of imports from third countries, and even to produce a growth in its exports of certain primary products. ^{11/}

The second concerns the granting of discriminatory preferences, combined in some cases with special financial assistance, to a growing number of countries. After holding the Yaounde Convention, in which eighteen African countries and Madagascar took part, ^{12/} the EEC negotiated agreements with Greece, Turkey and Nigeria respectively, granted bilaterally or unilaterally special tariff reductions on products of particular interest to Israel and India, signed a trade and technical assistance agreement with Lebanon and has recently begun negotiations for association with a number of European and African countries.

The third aspect to which objections have been made is the adoption of a series of ad-hoc measures such as those relating to the petroleum trade, which are in particular designed to strengthen official intervention in favour of other sources of energy or privileged suppliers.

^{10/} Point 1 of Chapter III gives references on the EEC's new self-sufficiency projections for 1970.

^{11/} In order to sell its agricultural products at competitive international prices the EEC openly practices a policy of subsidies as one way of applying the FEOGA (Fonds Européen d'Orientation et Garantie Agricoles) (Rule N° 25).

^{12/} As regards the agreements of association presented by the EEC to GATT within the framework of the provisions of Article XXIV, it should be emphasized that these did constitute a single agreement between a group of developed and a group of developing countries but 19 separate agreements between a group of developed countries and each of the developing countries. For this reason the Yaounde Agreement does not make any contribution whatever to an eventual region integration of less-developed countries.

The EEC/Latin America contact group concluded its second cycle of meetings with a memorandum summary which the heads of the missions of the Latin American countries in Brussels submitted to the Commission of the Community. This document, dated 4 February 1966, sums up the joint conclusions of the Contact Committee and those of the seven working groups into which it was divided.

Although the Community has not so far replied to the Latin American demands, some aspects of the report on them submitted by the Commission of the Community to the Council of Ministers in December 1966 have become known.

This document begins by calling attention to the rapid expansion of Latin American exports to the EEC as compared with the slow growth of those in the opposite direction, and concludes that this has produced a trade deficit for the Community of roughly 950 million dollars, mostly deriving from its trade with Venezuela. It also emphasizes the fact that the rate of expansion of these Latin American exports is considerably higher than the rates of those from other developing regions, in particular those from the associated African countries, and that this has occurred in all items except oil, cocoa and leather and hides. Nevertheless, the report recognizes that balance of payment difficulties have greatly limited the Latin American countries' capacity to import machinery and equipment needed for their economic development process.

In order to compare the Latin American demands with the position maintained by the Commission of the Community in the discussions which are taking place in Brussels, the problems concerned will be divided into four main groups.

(i) Tropical products. The Latin American countries are mainly concerned about three products, coffee, cocoa and bananas, and have pointed out the problems which will be created for their trade in these by the preferential system granted by the Community to other developing regions. Moreover, since their producers have in some cases had to reduce their export prices to the minimum in order to compete against the increasing flow of tropical products from associated regions, the application of the discriminatory system is in fact in contradiction with the objective of world stabilization

of the commodity markets recognized by the EEC itself. Without thereby retreating from their position that tariff and non-tariff barriers should be eliminated and discrimination abolished, the Latin American countries proposed to the Community that understandings on specific products might be reached by means of agreements which would enable them to keep their traditional share in the markets of the Community. In reply the Executive Committee states in its report to the Council of Ministers that coffee exports from Latin America have continued to grow while those from the associated African countries have decreased; that banana exports, which have been showing a favourable development, continue to enjoy a raised quota with nil duty in the German market; and that the decrease in the Latin American share in the cocoa market must be attributed to problems of quality, particularly in the product supplied by Brazil. As regards the preferences, the report only remarks that this is a very delicate question which must be solved at the political level, for whatever struggles are made by the Latin American countries for their abolition on the basis of the UNCTAD recommendations, the developing countries favoured by them will only be prepared to give them up if they previously obtain compensations in the form of international advantages at the political level.

(ii) Temperate-zone products. The Latin American complaints are in general concerned with the negative effects produced by certain mechanisms for carrying out the regulations of the common agricultural policy, which are being applied in such a way as to discriminate against overseas suppliers; with the depressive effects of the preferential systems, standing or in negotiation; with the quantitative restrictions applied by some member countries; and with health regulations which are likely to bring some imports to a standstill. The reply of the Commission to the requests for the establishment of tariff quotas, the modification of prejudicial regulations, the extension of preferential systems and the abolition of quantitative restrictions and animal health safeguards was that the development of bovine meat and cereal exports does not justify the anxieties of the Latin American countries, that the Community will continue to have shortages in a series of agricultural products (sometimes of a seasonal nature), and that in other cases the decrease in imports or uncertainty of market prospects has been due to incalculable factors. Although it is admitted that these

/explanations may

explanations may be partly correct, it is obvious that there has been no concrete study of the Latin American countries' demands concerning questions of policy and matters for negotiation.

It is obvious that when similar demands were made by other developing areas (such as some of the African countries belonging to the British Commonwealth, Israel, Spain, India, the Magrebh countries, etc.) the Commission not only submitted them to the Council of Ministers but succeeded in obtaining negotiatory powers in order to be able to continue the conversations along constructive lines. In Latin America's case it has confined itself to stating its points of view and affirming the expediency of maintaining in the form of the contact group a mechanism which will enable study of the relations between the Latin American countries and the Community to be continued. But this mandate, which is of relative interest to the Latin American countries, had been anticipated by the Council itself in a resolution adopted towards the end of November 1966,^{13/} even before the report of the Commission had been submitted to it. In sum, the Latin American countries have been increasingly made to feel that the Community does not take sufficient interest in the trade problems which they bring before it.

(iii) Processed and semi-processed products. The Latin American delegations submitted in Brussels a list of 102 products in respect of which countries of the region were interested in obtaining tariff reductions, the elimination of restrictions or special treatment by means of tariff quotas or the opening of tariff sub-items. The Committee states that concessions should not be made in this field before the end of the Kennedy Round tariff negotiations in Geneva, and points out that Latin America is the main supplier for only a small number of the items concerned and that, except in the case of Uruguayan wool tops, the exporting countries are not members of GATT (Venezuela and Mexico). It adds that for the moment it would only be able to suggest certain tariff openings and reductions of duties for

^{13/} This resolution states that the Council, considering the meetings between the Committee and the representatives of the Latin American countries to be in the interest both of the Community and of these countries, agrees to the request of the Latin American countries that they should continue, in order that any economic or trade problem which arises in the relations of the EEC with these countries may be subjected to effective and regular study. EEC Council of Ministers, Resolution of 25/XI/66.

sub-items which would include products of importance to Latin America. It is stated in another part of the report that the EEC's position would be somewhat more receptive with regard to general, non-discriminatory preferences for promoting exports of processed and semi-processed products from the developing countries.

(iv) Mineral products and fuels. Latin America proposed that existing external tariff duties for certain metals in gross (lead, zinc and manganese) should be eliminated, that the tariff difference between metals in gross and processed and semi-processed products should be reduced and that many metal products whose export is of interest to Latin American producers should be removed from the lists of exceptions submitted in the Kennedy Round tariff negotiations. With regard to hydrocarbons it was submitted that the relative share of the Latin American exporters share in the Community's supplies should be increased and that the protective barriers applied by the Community to its refining industry should be lowered. The Committee states in its report that 96 per cent of the mineral products imported by the EEC from Latin America enter duty-free and that the situation with regard to the rest is such that no improvement is for the moment feasible; it adds that the Committee has offered to negotiate substantial reductions for processed and semi-processed metal products and that the problem of hydrocarbons is not strictly a matter of trade policy, since what is here involved is the whole energy policy of the Community.

The conclusion to be drawn from these difficulties with the Community, which are partly due to its lack of a common trade policy and of a single body responsible for applying it, is that the Latin American countries must insist on the establishment of some operative formula which will enable negotiatory conversations to be undertaken. This might take the form of a permanent contact committee, as has even been suggested by some of the members of the EEC, or of a high-level Mixed Council provided with sufficient powers by the governments of both groups of countries. The mere creation of a mechanism of this type would, of course, already imply a policy decision on the part of the EEC with respect to the direction of its future economic-financial relations with Latin America.

2. The attitude of the United States in its trade with the Latin American countries

The Latin American governments have expressed their marked concern over the decrease which has occurred in the share of Latin American exports in the supply of the United States market and the manifestly slow growth of United States purchases of Latin American products. In discussions at the hemisphere level, which have turned basically on the principles contained in the Punta del Este Charter, the Latin American countries have indicated the advances and regressions that have occurred in United States trade policy in relation to possible supply by Latin American primary and processed products. Beginning with the positive aspects of United States policy, the following might be mentioned as concrete steps towards liberalization of the commodity trade: the resolute support given by the United States to the fulfilment of the international coffee agreement, especially with regard to the obligations of the consuming countries, the elimination of import quotas for lead and zinc in 1965, and a number of important offers made in the Kennedy Round negotiations.^{14/} Other aspects of its policy have been severely criticized by the Latin American countries, in particular: the attitude of the United States in the negotiations for a world cocoa agreement, its agricultural legislation for cereals and cotton, its restrictive provisions on bovine meat, its restriction in connexion with petroleum and cotton textiles, its management of its surpluses and its strategic reserves, the application of certain health regulations, and its policies on sugar and cotton fibre.

In addition to the new and greater import restrictions, which constitute a regression from the standstill principle accepted in Geneva and agreed in the Action Programme of GATT, the new agricultural legislation threatens to create serious difficulties in certain commodity markets which had reached a relative degree of stability. The new guaranteed prices for

^{14/} The United States offers covered 356 million dollars worth of imports, and its duty-paying imports from Argentina, Brazil, Chile, Peru and Uruguay amounted to 458 million dollars in 1964.

cotton and the sales policy of the Commodity Credit Corporation have produced a fall in international quoted prices for that commodity, while in cereals the raising of certain seed limits - though justifiable in face of the fall of United States stocks below the volumes established as minimum strategic reserves - has showed up the upward trend in quoted prices for wheat and, correspondingly, those for animal fodder cereals. If it is considered in addition that there is a chance that large surpluses of cotton fibre and wheat will again accumulate in the world market, the Latin American countries can hardly find United States policy in these items justifiable, unless a proper ordering of the international market for both products were to be established.

In the case of sugar, the new United States legislation creates additional protection for domestic production at the expense of potential supplies from third countries. The new Food for Liberty law, not, as was law 480, based on the distribution of available surpluses but on a policy of directing production into the foodstuffs in deficit, constitutes a new approach which, considering the difficulty of reconciling the very praiseworthy humanitarian aspects of the programme with its eventual repercussions on trade, naturally arouses the suspense and anxieties of the Latin American food exporting countries.

It is still more difficult to interpret the negotiatory attitude of the United States in the case of cocoa, considering the concern always shown by it for the liberalization of the tropical products trade.

It is hoped in Latin America that in the next meeting of heads of state of the member countries of the OAS a favourable definition of many of the problems of trade with the United States will be reached and that joint action for promoting the growth of trade with other regions will be agreed.

3. The policy of the United Kingdom and of other developed countries of market economy

The lack of dynamism in Latin American exports to the United Kingdom may be largely attributed to the balance of payments problems of that country and its adoption of a general import surcharge, from which only certain products of interest to the developing countries were exempted. In addition, the greater incentives, in the form of subsidized prices, given to production under its agricultural policy have resulted in a decrease in its food imports (particularly meat and cereals), in spite of the fact that it had made with the respective exporting countries a voluntary agreement on the ordering of meat shipments, and an agreement on minimum prices and volumes for cereals. As regards the agreement on cereals, its measures of domestic regulation did not confine its production within the bounds stipulated in its commitments to the main exporters. Apart from this, the Latin American countries regard with some concern the entry of this country as a full member into the European Economic Community, if this should take place, on account of the changes which might follow in its trade policy. Thus, it is feared the United Kingdom may eventually become party to the preferences now granted by the EEC or that the Community may grant specific advantages to less developed countries of the Commonwealth in compensation for their loss of the preferences established in the Ottawa pacts.

Although the position of Japan with regard to trade with the developing countries appears to have improved considerably over the last few years, the benefits of this attitude for Latin America have been limited, since the expansion of its trade with this region has been greatly affected by marine insurance and freight costs. Its retention of certain import restrictions and, above all, its state trading régime for a number of agricultural products have also limited the potential growth of certain Latin American exports.

Trade with Canada has shown a rapid growth - it more than doubled in the last five years - but has not yet reached significant proportions in the total trade of Latin America. Only a few Latin American countries

/have taken

have taken advantage of the prospects offered by the Canadian market, which have become extremely promising in view of this country's policies and its offers in the Kennedy Round negotiations.

Since the time of the first UNCTAD the Scandinavian countries have shown themselves the most willing of any developed countries to carry out the recommendations there approved, and during the last few years have substantially liberalized their trade in products of fundamental interest to the developing countries partly by reducing their import tariffs and partly by lowering internal charges on certain consumer goods.

Australia has also made an extremely positive response to the problems of the developing countries, beginning with the waiver which it obtained in GATT in order to put into practice a system of general preferences subject to tariff quotas in favour of the developing countries for a first list of processed and semi-processed production. The extension of this list has just been announced.^{15/}

The heterogeneous attitudes and policies assumed by the industrialized countries,^{16/} a heterogeneity which has not been related to their degree of development or to balance of payment or other problems, makes obvious the importance of a united and resolute effort at persuasion on the part of the developing world in order to create the approaches and the favourable climate needed for fruitful negotiations between both groups of countries. These facts also confirm the validity of the basic principles reached in the UNCTAD and in GATT and indicate the path that must be followed in order to obtain their full acceptance and effective fulfilment.

4. Trade with the countries of centrally planned economy

Latin America's recent trade with the countries of centrally planned economy has shown an expansion very much greater than that of its exports to its traditional markets. However, two facts may be mentioned which to some extent modify this general conclusion: in the first place, the

^{15/} Report of the Working Group adopted 28/III/66 (GATT Instruments de base et documents divers - Supplément N°14-pp.172/178).

^{16/} This has occurred even among the countries which periodically discuss and compare their individual policies in the EEC.

concentration of this trade within a small group of countries (Argentina, Brazil, Chile and Cuba), and in the second, the different patterns under which these trade relations have been conducted.

A number of different formulas have been used in negotiating with the socialist countries. The European countries (France, Italy, Netherlands, Spain, West Germany) have made a large number of agreements with the major countries of this group which included projections of probable trade and mentioned the main headings of which it would consist; these lists are prima facie more binding on the socialist countries,^{17/} because they direct their purchases in accordance with pre-established programmes. Nevertheless, it can also be observed that the agreements have been carried out on the side of the Western European countries¹, whose purchases have mainly consisted of raw materials, fuels and food products. The payments in both directions are normally effected in gold or in freely available foreign exchange.

The structure of Latin American trade with the socialist countries shows a net predominance of primary commodities in Latin American exports and of processed products in the goods supplied by these countries. There exists, however, the prospect that processed and semi-processed products can be increasingly included in the Latin American exports.

Experience shows that the greatest problems for the expansion of this trade occur in connexion with payments, from the creation on both sides of surpluses in currencies which can be used only slowly or with difficulty. This has often given rise to triangular or switch operations which subsequently resulted in a loss of import capacity. The recent agreement signed between Brazil and the USSR constitutes an interesting variation, while retaining the multilateral system of payments. As a collateral for capital goods which Brazil purchases within the overall credit ceiling envisaged (100 million dollars), the USSR engages to purchase Brazilian products in

^{17/} In addition to the relative advantages resulting from the smaller distance and better trade links, the socialist countries in this case are mainly suppliers of primary commodities which are not liable to the technological problems, the contingency of suspension of supplies and other factors which normally constitute obstacles to their sales to Latin America.

/competitive conditions,

competitive conditions, of which not less than 25 per cent will be processed and semi-processed articles. Chile has arranged with the USSR similar bases of trade and has envisaged the drawing up of a programme of official and private purchases to be carried out in the next two years.^{18/} Czechoslovakia, Rumania, Hungary, Yugoslavia and Poland maintain trade agreements with Latin American countries and were willing to increase their commercial relations with them.

In examining the prospects of an expansion of this trade and the recent experience of certain Latin American countries in this connexion aspects such as the following should be considered:

- (a) more flexible use of the credits and trade surpluses created, by the provision of a multilateral payments system, operating at least among the countries belonging to the COMECON;
- (b) improvement of the sales prospects in the private sector of products from the socialist countries, taking advantage of the new patterns which could result from alterations which these countries may make in their foreign trade policy (decentralization of the management of exporting enterprises);
- (c) study of investment prospects for the purchase of complete industrial plants paid for on credit, whose amortization would be related wholly or partly to the purchase by the supplying countries of processed and semi-processed products made in the plants;
- (d) inclusion in the socialist countries' annual purchasing programmes of concrete provisions for the import of Latin American processed and semi-processed products, which may or may not be related to a definite percentage of their sales of industrial products to the Latin American countries.

^{18/} Trade and Protocol Agreement on the supply of machinery and equipment by the USSR signed by Brazil on 9 August 1966 and by Chile on 13 January 1967. On the same date Chile made an agreement on technical assistance and financing for specific projects for the construction of industrial plants and other objectives.

During the first UNCTAD the socialist countries expressed their firm desire to increase their trade relations with the developing countries. At the end of the meeting some of them presented a report on targets of potential trade, which, however, they made contingent on a sufficient degree of reciprocity on the part of the developing countries. Subsequently, both unilateral and in the framework of GATT, some of the socialist countries announced reductions in customs duties on products whose export is of interest to the developing countries, to apply only to these countries. Although the application of tariffs is only of relative importance in the real prospects of access to the markets of these countries, this announcement may be considered a sign of their willingness to advance further in other practical aspects of the negotiations referred to above.

C. THE UNSATISFIED EXPECTATIONS OF THE DEVELOPING COUNTRIES:
THE LATIN AMERICAN POSITION

The crucial stages of the first UNCTAD conference revealed the existence of a common attitude among developing countries which is not fully reflected in the final resolutions, owing to the need to reach compromises through the conciliation process. The efforts of these countries were necessarily oriented toward obtention of maximum possible acceptance of their position by the developed countries, not only those with market economies but the centrally-planned as well. Still, the developing countries based their hopes on anticipation of the broadest possible compliance with the recommendations incorporated into the Final Act. These aspirations coincide, to a considerable extent, with those to be found in the Charter of Alta Gracia, which constituted the basic platform of the Latin American countries in Geneva.

Now, almost three years after the first conference, it may be said that many of the expectations aroused have not materialized; although there has been an appreciable advance in the more precise identification of problems, the recommendations approved are still a long way from fulfillment.^{19/} In the light of this fact the developing countries will have to redouble their efforts to achieve positive results in tariff and trade negotiations now under way in the GATT and likewise endeavour at the second conference to solve problems that were debated at length in the first.

As already mentioned, this obliges the developing countries to concentrate their negotiating efforts on practical and sufficiently-studied problems, in order to obtain results and reach effective reciprocal agreements. This in no way implies that the developing countries do not recognize the responsibility that falls to them with respect to the policies and measures they must adopt in relation to various aspects of their economic structure and conduct; however, it should be reiterated that all efforts in this direction will not achieve any results unless the developed countries agree to face their responsibilities.

^{19/} See Report of the Trade and Development Board (A/6315) pp. 88-103 and Statement by the Secretary General of the UNCTAD (TD/B/103/Rev.1).

A small Co-ordinating Group has been set up among the developing countries, charged, among other things, with proposing an order of priorities for the problems included in the provisional agenda of the second UNCTAD, as approved in the fourth session of the Trade and Development Board. Although this group has not finished its work and the adoption of any criterion depends on the Co-ordinating Committee of the "77", it is considered that there are in principle sufficient bases for concrete negotiations on the following aspects:

(a) liberalization of trade and abolition of preferences in the basic products sector: establishment of fundamental principles for the re-organization of markets (elimination of production that is excessively protected, abolition of preferences, assurance of access to markets, and solution of the problem of substitutes, etc.); and determination of concrete fields in which it is possible to advance toward the conclusion of world agreements on specific products;

(b) improvement of conditions of access to markets and elimination of import restrictions for manufactures and semi-manufactures exports of which are of interest to the developing countries; discussion of practical formulas for a system of general and non-discriminatory preferences and adoption of a programme of measures leading to improvement of supply conditions for the industrial products which the developing countries are able to export;

(c) determination of general conditions and procedures for financial assistance to the developing countries in relation to trade; acceleration and strengthening of decisions that should be adopted concerning supplementary and compensatory financing, respectively;

(d) expansion of the geographic area of exports from the developing countries. Latin America is especially interested in exploring prospects for increasing its sales to traditional markets (United States, United Kingdom, EEC) and to potential markets (African, Asian and centrally-planned countries).

The establishment of an order of priorities and concentration of negotiating efforts in specified fields does not exclude the possibility of continuing to advance in studies and analyses required for the

/identification of

identification of problems and areas where positions and interests coincide; nor does it preclude the eventual proposal of measures directed toward overcoming problems in such sectors as maritime transport, trade in invisibles, repercussions on international trade of regional economic groupings, and expansion of trade and economic integration between developing countries.

1. The institutionalization of trade commitments at the world level

When the developing countries went to the first UNCTAD in Geneva they were disposed to promote a basic change in the organization of international trade relations and in the prevailing institutional framework. This implied a fundamental revision of institutions such as the GATT which were regulating relations of countries whose reciprocal trade represented almost 80 per cent of world trade, carried on mainly between developed countries. The resolutions approved at the first Conference signified, without doubt, a change in the attitude of the developed countries, but they were not expressed in commitments carrying obligations, neither with respect to the general principles that should prevail between countries at different levels of development, nor with respect to specific questions debated at length in the Conference. Therefore the results of the first Conference must be considered as a point of departure for the reorganization of international trade and development. Hence the necessity of taking advantage of this permanent forum, where trade and financial matters of interest to the developing countries are debated at the world level, in order to improve and implement points of coincidence, so that their observance may become a requirement and achievements may be reviewed periodically.

In the present chapter it was pointed out that it will be necessary for the second UNCTAD to debate and resolve concrete problems of trade and development and create the mechanisms for negotiation and consultation that are required for carrying out the programme supported by the developing countries. Perhaps an early start could be made on the basis of the points contained in the memorandum presented by the Co-ordinating Group (The Committee of the "31") at the end of the fourth session of the Trade and Development Board.^{20/}

^{20/} Report of the Trade and Development Board (document A/6315, p.108/111).

It is evident that the attitude of the developing countries in UNCTAD has begun to produce a significant change within the GATT. The influence of the new philosophy of trade and development accepted in the UNCTAD is clearly reflected in the two main tasks which the GATT has been carrying out, i.e. the juridical reform of its charter and the Kennedy Round negotiations. Reference has already been made to the probable results of the latter task. The Kennedy Round includes for the first time in any GATT negotiation, the principle of "non-reciprocity" and the acceptance of other special rules for negotiations between developing countries. This could lead to more flexible formulas for negotiation and extension of benefits agreed upon, thus giving effective application to the provisions contained in article XXIV as well as to a broader interpretation of the scope of the most-favoured-nation clause in relation to the developing countries.

The most outstanding change in the juridical structure of the General Agreement, in recent years has been the inclusion of the new chapter IV. The more positive aspects of this chapter signify the extension of the GATT's action to fields beyond merely that of trade problems facing developing countries, so that these may be related to problems of external financing. In practice the rules contained in the new chapter IV should find practical expression through the Kennedy negotiations. However, it should be noted that there has been some reticence on the part of the developed countries concerning integral compliance with the commitment that they assumed in ratifying chapter IV. The GATT has in general been accepting a flexible application of its rules and procedures, based more on the principle of negotiation than on that of a juridical obligation to comply. This attitude undoubtedly favours the highly industrialized countries due to their better bargaining position, resulting at times, through lack of formal pronouncements, in the assumed acceptance of decisions which, in principle, would be incompatible with the General Agreement.^{21/}

^{21/} In compatibility cases raised in GATT, such as the arithmetic formula for fixing external tariffs of the EEC, its agricultural policy regulations, or the legitimacy of agreements of association, the practical solution consisted in setting up groups of experts which either did not reach a definite conclusion or reached conclusions, at times contradictory, which were not submitted to the final decision of the Contracting Parties.

Without prejudice to implementation of the new provisions of chapter IV, the developing countries continue struggling in the GATT to attain incorporation of other principles as obligatory rules. These include general and non-discriminatory preferences for importation of manufactures and semi-manufactures in the developed countries and the establishment of more flexible rules for trade between developing countries which would not be extensive to the developed countries. This process being carried out in the GATT should not be distorted or diluted by virtue of the application of exceptions, safeguard clauses (such as that pertaining to market disruption) or simply accomplished facts, through which the developed countries may justify or merely maintain policies that are opposed to the general principles accepted and compromises contracted in the organism. Otherwise the developing countries would be placed in a clearly inferior position since their relative situation would not allow them to deal on an equal plane with the developed countries in case they might have to apply restrictive provisions in their trade with them. This is due to their greater economic vulnerability and to their dependence on income from a limited group of export products.

In addition to seeking concrete commitments on specific problems related to principles and recommendations approved in the UNCTAD, it would seem advisable likewise to try to include the various points of coincidence within an expanded United Nations international trade and development programme that would serve as an adequate framework for formulating growth goals of the developing countries. Such an expanded programme would serve as a plan of action which, once approved by participating countries, would bind them through commitments in line with the new formulation of international development and trade policy.

2. The expansion and liberalization of commodity markets

Although problems relating to trade in commodities are dealt with in chapter III of the present report, it is appropriate to include here some preliminary conclusions. It must be emphasized that the standstill recommended in the UNCTAD and included in the commitments of the new chapter IV of the GATT, with the aim of consolidating the existing situation and from there attempting to achieve greater access to and

/liberalization of

liberalization of markets, is insufficient as a means for the effective improvement of the external sector of the developing countries. The pertinent solutions or alternatives should be oriented toward periodic revision of how the standstill commitment is being complied with, putting special emphasis more on results than on compatibility or lack of it in the measures adopted by the importing countries in relation to the principle. The developing countries should obtain, in accordance with the norms and practices applied in the developed countries concerning access to their markets, certain assurances on minimum volumes of exports and percentage participation in present and potential consumption. Such assurances should constitute commitment formulas that would be equivalent for countries with market economies and those that are centrally planned.

The Latin American countries are likewise concerned about fulfillment of the commitment undertaken in the first UNCTAD for the gradual elimination of advantages applied by certain industrialized countries in favour of developing countries or regions. As foreseen in resolution A.II.6, it is indispensable to define compensatory formulas that would make it possible for the countries that are beneficiaries of such advantages to give them up. A group of independent experts should study methods for a correct evaluation of the meaning of the advantages and the compensatory mechanisms that might be the subject of negotiation.^{22/}

As for the formulation of a policy for commodity agreements,^{23/} it is essential for the developing countries that definite aims be established, as well as practical procedures that are in accordance with the characteristics of the products involved and operating mechanisms. It will also be necessary to have a single forum for the discussion of commodity agreements and harmonize their provisions as much as possible through simplification of contractual clauses.

^{22/} Some developed countries as well as some of the developing ones consider that the generalization of advantages, through increasing liberalization of markets, constitutes, at least partially, a positive element for the achievement of the compensatory formulas.

^{23/} Report of the first session of the Advisory Committee of the Board and of the Committee on Commodities (document TD/B/109).

The three aspects mentioned - improvement and application of the standstill clause, compensation or renunciation of preferences and policies for commodity agreements - can be the basis for effective negotiations in the course of the second UNCTAD. For this purpose greater understanding and a greater degree of coincidence concerning them should be sought; this would expedite the tasks being carried out respectively by the Commission and the Permanent Subcommittee on Commodities and the Advisory Group. Experience gained in the negotiations on specific products, particularly sugar and cacao will also be of value.

Two other important subjects in the commodity field under study at UNCTAD still require greater analysis in order to determine their viability and scope.^{24/} They are: agreement on commodity arrangements and proposal on organization of commodity markets. Progress has not yet been made on the first point, a prior requirement being a complete report on international commodity policy. However, it would appear difficult to achieve a strategy for negotiating commodity agreements on the basis of uniform clauses, unless these would be so general so as practically not to entail effective commitments concerning the characteristics of the principal commodities that enter international trade.

3. Measures for promoting the diversification of exports of manufactures and semi-manufactures

A broad plan of measures for stimulating and improving supply conditions and liberalizing and improving possibilities for access to markets of the industrialized countries is necessary if exports of manufactures and semi-manufactures from the developing countries are to be stimulated. On the supply side, ECLA has been studying potential possibilities of Latin America, through a series of studies on selected countries ^{25/} which analyse not only problems of the industrial structure and of costs but also those related to marketing and measures and policies

^{24/} Report of the first session of the Permanent Subcommittee on Commodities (document TD/B/C.1/21).

^{25/} So far preliminary versions of studies on Argentina, Brazil and Chile have been finished and will be presented to the Committee on Manufactures of the UNCTAD.

the countries studied are adopting in order to encourage exports of manufactures and semi-manufactures. In chapter III likewise some suggestions are made concerning assistance and co-operation of the developed countries and competent international institutions for the purpose of increasing and improving production of manufactures in the developing countries.

As for conditions of access to markets, the action programme should contemplate the revision of tariff structures and the elimination and reduction of customs and non-customs barriers that affect the entry of manufactured and semi-manufactured products exports of which are of interest to the developing countries, as well as the commitment to discourage the installation and expansion of such industries in the industrialized countries and to foster the reconversion of certain industrial sectors which would contribute to expansion of the trade that is sought.

The second UNCTAD should provide an opportunity for negotiating the establishment of a general system of preferential advantages for imports of manufactures and semi-manufactures produced in the developing countries that would be temporary, non-discriminatory and not subject to reciprocity.^{26/} In chapter III, where this point is dealt with, the alternatives for the provisions and scope of such a system are mentioned, along with those for compensation to the developing countries which, in making general their present preferences, would lose the exclusive advantages they have been enjoying until now. In the case of the Associated States of the EEC, this would appear not to have very great importance from the standpoint of generation of trade flows in manufactures, but it would be important for some of the developing countries making up the British Commonwealth.^{27/}

^{26/} Report of the Group on Preferences of the UNCTAD - first session (TD/B/84).

^{27/} In the first UNCTAD, the United Kingdom proposed to extend to all developing countries the advantages it accords to countries that are members of the Commonwealth, providing that other industrialized countries would adopt the same position within the framework of a general system of preferences.

Another important field to explore, which could be the subject of negotiations in the next UNCTAD ^{28/} is that of exclusive tariff or trade advantages between developing countries which can not be claimed by developed countries, particularly those that come under regional integration agreements.

4. Conditions and formulas for financing trade and development

The insufficiency in recent years, of Latin America's external resources vis-à-vis its economic and social development needs is well-known. It derives from the combined effect of the unsatisfactory growth of the exports of the region and a decrease in net inflow of capital and financial resources. Foreseeable prospects for the next few years do not encourage the expectation of a fundamental change in these tendencies, unless there should be a change in attitudes and policies of the principal developed countries and, to some extent, of international financial agencies. The second UNCTAD could play a determinant role in this respect; in order that this may be possible, the developing countries will have to join forces and channel their proposals toward specific aims.

In the first place there must be an increase in external financial assistance made available to the developing countries.^{29/} Latin America requires a significant increase in external resources that should be provided under adequate terms. In the second place, systems of tied credits should be put aside, interest rates reduced, amortization periods increased, and more flexible conditions established for remaining requirements such as granting of grace periods, that are associated with credits. All these questions should be debated in the second UNCTAD and projects such as the Horowitz proposal that tend to overcome concrete problems should be analysed thoroughly.

^{28/} Concrete negotiations are being carried out in the Kennedy Round and it is probable that these will continue in the GATT as a special series of negotiations.

^{29/} The retrocession of financial assistance in recent years place it even farther from the goal of 1 per cent which was considered to be a modest one for the United Nations development decade.

While examination of operating problems associated with the compensatory financing machinery of the IMF should continue, the possibilities for improving the scope of the present system should be analysed in the UNCTAD. The need for this is related to the tendency toward short-term deterioration of prices of certain primary products that are of great importance for export income of various Latin American countries. The problem takes on additional meaning when real purchasing power generated by such exports is taken into account.

As for supplementary financing, the plan presented by the experts of the International Bank for Reconstruction and Development, which is being dealt with in the UNCTAD's Commission on Trade in Invisibles, offers a positive basis for discussion concerning establishment of a mechanism that would permit ensuring financing for economic development programmes that might, under other circumstances, have been covered by export income. It is urgent that significant decisions in this matter be adopted at the second UNCTAD.

5. Trade in invisibles and the special position of maritime transport problems

Among the various themes related to trade in invisibles that were studied in the first UNCTAD (tourism, insurance, patents and trademarks, gifts and maritime transport), transport is the one on which preliminary work is advancing at a pace that presupposes that at the second Conference it will be possible to negotiate concrete aspects or at least identify points that might be negotiated. The basic problem faced by the Latin American countries in this sector concerns not only the level and structure of maritime rates and to the tendency of these to increase in recent years, but also certain practices of the stevedores conferences and the absolute stagnation and relative retrocession of the national merchant fleets. The acceptance of specific principles in favour of the developing countries in this field would have as their justification considerations similar to those prevailing for the changes that these countries propose with respect to the reorganization of international trade.

Chapter III

LATIN AMERICA AND THE SECOND SESSION OF UNCTAD

1. Commodity trade problems

The amount of attention paid in the last three years to the trade problems of the developing countries is undoubtedly one of the most encouraging aspects of international economic policy. Although much has been achieved in identifying the problems, and even in discussing ways of overcoming them, very little progress has been made in applying practical measures and, in some cases, the situation has even worsened. There is, therefore, a very real basis for the frustration that is spreading throughout the developing countries at seeing the gap between the recommendations and agreements adopted by the international community and their implementation at the trade policy level widen rather than diminish. This gap is particularly striking in certain aspects of commodity trade policy. An analysis of these aspects is not conducive to optimism, but it would be a mistake to conclude that nothing more can be done. The developing countries must make new and greater efforts to ensure that the recommendations that are not observed and the agreements that are not fulfilled eventually become the guiding principles of the new ordering of international trade relations set forth in the Final Act of the United Nations Conference on Trade and Development (UNCTAD) and the new Part IV of the General Agreement on Tariffs and Trade (GATT).

At the third meeting of the Ad Hoc Committee on Latin American Co-ordination (CECLA) at the expert level in mid-1966, the Latin American countries had an opportunity of expressing their concern and dissatisfaction at the lack of progress in solving their commodity export problems. Nothing has occurred in the meantime that in any way deprives those expressions of concern of their force and urgency.

Moreover, it is not enough for the Latin American countries, and the developing countries in general, merely to request the implementation of the recommendations and agreements accepted by the developed countries.

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Some of these agreements contain loopholes, and it is therefore essential, as in the case of the standstill recommendation, to seek ways to make them more explicit.

In other cases, agreements on general principles must be used as a basis for drawing up formulas and establishing mechanisms for applying such principles. In this connexion, the policy of international commodity agreements has proved the most frustrating experience of all. The unanimity with which all the developed countries supported this policy contrasts sharply with the obstacles that some of them have placed in the way of such agreements. But although the intransigence of certain developed countries has undoubtedly been the main cause of the failure of the negotiations on commodity agreements in the last two years part of the responsibility must be borne by the developing countries, in that they were unable to iron out their differences and present a united front. At the CECLA meeting referred to above, the Latin American countries announced their intention of extending the number of products governed by special international agreements, but they have not followed this up by exploring possible forms that such agreements could take.

The policy of international commodity agreements or arrangements is not the only line of action open to the developing countries. There are, in addition, the problems connected with better access to the markets of the developed countries and with discriminatory policies, programmes for reducing and eliminating tariff restrictions, and many other questions in respect of which practically nothing has been done. The developing countries must, therefore, work towards the achievement of a joint, unified policy, first at the regional and then at the inter-regional level, not on questions of principle (for which there is already a wide basis of agreement), but on specific problems that inevitably give rise to differences of opinion.

The imminent completion of the Kennedy Round tariff negotiations lends greater urgency to this question. It is essential that the developing countries should be in a position to evaluate the results of these negotiations and adopt a unified line of action, should they fall short of their aspirations.

/(a) Scope

(a) Scope and limitations of the standstill recommendation

Of all the recommendations adopted in the Final Act of UNCTAD in 1964, and of all the pledges undertaken by the member countries of GATT in Part IV of the General Treaty, in relation to the trade of the developing countries, the easiest to fulfil would seem to be the standstill recommendation and agreement, precisely because they require no action of any kind, but merely a pledge not to take any steps that would prejudice or restrict access to the markets of the developed countries for the exports of the developing countries. However, as events in the last three years have shown, there have been many instances in which both the letter and the spirit of these agreements have clearly been violated by the countries subscribing to them.

In brief, the standstill recommendation states that "... no new tariff or non-tariff barriers should be created (or existing barriers increased) by developed countries against imports of primary products of particular interest to developing countries". Thus, an action such as that taken by the United States in the October 1965 sugar legislation is in open contradiction to the UNCTAD recommendation and the agreement subscribed to in GATT. The legislation provided for an increase in the domestic producers' contribution to total supply, thus reducing in absolute and relative terms the quota supplied by foreign producers, for the most part of Latin American countries.

This action by the United States is clearly a case in which existing restrictions on imports from developing countries have been increased, but there are other cases where, although the measures taken do not constitute the creation of new barriers or the extension of existing ones, they have the same restrictive effect and should therefore be considered as violations of the standstill principle. The most outstanding examples are the agricultural section of the National Plan adopted by the United Kingdom in 1965, the common agricultural policy of the European Economic Community (EEC) and the modification of cotton legislation in the United States. The United Kingdom's National Plan provides for a selective increase in production in the period 1965-70, especially of beef and grains, in an attempt to attain a higher degree of self-sufficiency in these and
/other agricultural

other agricultural products. Any increase in self-sufficiency has the effect of reducing the share of foreign producers in total supply, either by freezing the present volume of imports or by ensuring that in the future imports will increase at a slower rate than total consumption. In the case of the United States cotton legislation, too, the restrictive effect on exports from developing countries does not stem from the creation of new tariff or non-tariff barriers, but from the reduction of cotton export prices to the level at which Latin American exporters are unable to compete, with the result that the exports of many Latin American countries will be squeezed out of the world market.^{1/} With this policy of lower export prices, the United States is reinforcing the recent trend for the share of the developed areas in world commodity exports to increase in absolute and relative terms, to the detriment of exports from developing countries.

It follows that the fulfilment of a recommendation such as the standstill recommendations needs to be posed in different terms. It is not merely a question of reopening discussion on the validity of the formula recommended (that no new tariff or non-tariff barriers should be created or existing barriers increased), but rather of negotiating multilateral agreements to ensure the effective fulfilment of the objectives implicit in the recommendation, i.e. that the share of the exports of developing countries in the markets of the importing developed countries, and thus in world commodity trade, should not be reduced.

This need stems not only from the fact that the standstill agreement in its present formulation does not explicitly define its objectives, but - what is much more important - from the fact that, even if it were put into full effect, it would still be insufficient to guarantee maintenance of the present share of the developing countries in world commodity exports.

^{1/} In this connexion see the declaration presented to the Government of the United States by eleven Latin American cotton producers, stressing the necessity of restoring the former price levels for United States cotton exports. Comercio exterior (Mexico, November 1966).

Their share of temperate-zone agricultural products and certain minerals is adversely affected and is tending to decrease - even where no new barriers are created or existing ones increased - as a result of competition from the exports of developed countries, sometimes supported by subsidies and sometimes by a deliberate policy of cornering the market by lowering prices, or in other cases by a policy of subsidizing local production in order to increase self-sufficiency. The problem as regards tropical-zone agricultural products is not so much that the relative share of the developing countries as a whole is likely to diminish (although this may occur in the case of products for which there are synthetic substitutes), but that there is a clash between different groups of developing countries, because preferential treatment is tending to increase the share of one group's exports to the detriment of another's. This is the case with the preferential arrangements granted by the EEC to the group of African countries associated with the Community and to other countries with which similar agreements have been negotiated, and with the preferences within the British Commonwealth which, although they date back many years, have similar effects.

The effectiveness of agreements like the standstill agreement is also limited by the difficulty of applying viable criteria and objectives in every case to determine what should be understood by new barriers (or the extension of existing barriers) to the trade of developing countries, particularly in situations such as that obtaining in the EEC. The members of the EEC, in the process of creating their common market, must replace their national barriers to imports from third countries, as well as other protective measures for their domestic production, particularly agricultural production, by other barriers and measures common to all the countries of the Community. Thus, the problem lies in determining whether or not such common barriers and measures have a more restrictive effect than the national protective measures they replace, a problem difficult, if not impossible, to solve satisfactorily on an a priori basis.

There are good reasons for believing that in this process of creating a common market the degree of agricultural protectionism tends to correspond to the most favourable situation - from the standpoint of internal self-sufficiency - in each of the national markets. The system of variable charges /on imports

on imports from third countries provides the funds for financing the Community's agricultural protection policy, and insofar as this protection, extended throughout the Common Market, leads to an increase in production, the Community's total imports are reduced in absolute and relative terms. This may, in the end, lead to exportable surpluses, with the inevitable result that access to the market for the exports of developing countries will be even more restricted. Thus, although it is very difficult to determine in each specific case whether or not the common agricultural policy measures are more restrictive, there are grounds for believing that the standstill agreement does not provide a sufficient guarantee that the interests of developing countries that do not have free access to the Community market will be protected.

The new projections of production, consumption and degree of self-sufficiency, based on an analysis of the trends during the period 1961-64, give a completely different picture from the 1963 projections.^{2/} They indicate that by 1970 the Community will be completely self-sufficient as regards dairy products and will eventually be able to export such products to third countries; the demand for beef imports will be less than in 1963, with a degree of self-sufficiency approaching 92 per cent; and with regard to grains the degree of self-sufficiency will be 100 per cent for wheat (at present it is 97 per cent) and 76 per cent for forage grains (at present 72 per cent). In the case of wheat, however, despite its seeming self-sufficiency, the Community will have to continue importing large quantities of hard wheat and at the same time find markets in third countries for France's growing production.

It follows that the Latin American countries must take the initiative in furthering multilateral negotiations with the developed countries and the centrally-planned economies, with a view to obtaining specific agreements guaranteeing - without prejudice to the agreement on the eventual elimination of trade barriers in respect of certain products, as envisaged in the Kennedy Round tariff negotiations, - that the developing countries' share of the market will not fall below a certain minimum. These agreements should ensure

^{2/} Agence Internationale d'information pour la presse, Europe (Brussels, 13 December 1966).

free access, or the most favourable conditions of access, for products from the developing countries in quantities which, in addition to guaranteeing a minimum percentage share in present total supply, also include a growth factor, thus ensuring the maintenance of that proportion in the future growth of consumption.^{3/}

An agreement of this kind, which could be negotiated through UNCTAD, would be a logical development of the standstill agreement already in force but not properly observed, and it would have the advantage of emphasizing not the nature of the measures adopted by the importer countries, but the results and consequences of those measures, it being the responsibility of the developed countries to ensure that the desired results are achieved. The proposed guarantee would cover all types of possible risks stemming from actions taken by developed countries that might affect the developing countries' exports, e.g. policies for protecting and stimulating local production, competition from similar exports from developed countries, discriminatory preferences, etc.

It is a matter of particular importance and urgency for the Latin American countries to obtain such a guarantee in its relations with the EEC, especially in the light of the reopening of negotiations for the entry of the United Kingdom into the Community. It is, moreover, essential that Latin America should be given some prior guarantee against the probable adverse affects of other measures being taken by the Community in relation to its common agricultural policy, and of the extension to other countries of discriminatory preferences now afforded to the associated countries.

^{3/} The incorporation of a "growth factor" has certain precedents. One example is the quota system established by the United States for meat imports. A basic quota was established equivalent to average annual imports in the period 1959-63. This basic quota is adjusted annually in accordance with the percentage growth or decline of the domestic product over the last three years (including the current year). In 1965 this growth factor was 17 per cent. The basic quota, 725.4 million pounds, adjusted by the growth factor, gave a total of 848.7 million pounds. Import quotas are established if estimated imports for the current year are 10 per cent higher than the adjusted figure. In the example quoted, if the total volume of imports in 1965 was estimated to amount to more than 933.6 million pounds (the adjusted figure, 848.7 million pounds, plus 10 per cent), the quota would be fixed at 848.7 million pounds. (See United States Department of Agriculture, Livestock and Meat Situation, January 1965.)

(b) Access to markets and the problem of discriminatory policies

The standstill recommendation examined above was intended to ensure that the situation as regards access to the markets of the developed countries for primary products exported from the developing countries should not deteriorate. However, as is clear when the remaining recommendations on this subject in the Final Act of UNCTAD are taken as a whole, the main objective was to ensure better access to the markets of the developed countries by gradually reducing, and in some cases completely eliminating, all existing charges and restrictions on products of special interest to the export trade of developing countries. The total elimination of charges and restrictions, i.e. free access to markets, was specifically recommended in the case of imports of tropical-zone products, since such products do not compete with domestic production in the developed countries and the charges are therefore purely fiscal measures. As regards products produced in both the developed and developing countries, the UNCTAD recommendation states that developed countries "should not take measures which stimulate in their countries uneconomic production in such a way as to deprive developing countries of the opportunity to obtain a fair and reasonable share of world markets and market growth".

Guaranteed access to markets is the central problem of the whole commodity trade question, and is also the objective of the recommendations on the negotiation of international commodity agreements or other arrangements and of the proposals for the international organization of the markets. However, very little progress has been made in this regard in the two and a half years since the Conference. Only a very small number of countries have reduced or eliminated import charges on a few tropical-zone products, and the developed countries have made no move to reduce excessive agricultural protectionism and improve access to their markets. On the contrary, in some cases protectionist policies have hardened and access has been made more difficult.^{4/} Conditions are least favourable in the EEC market, as regards

^{4/} For an outline of the main developments, see the Trade and Development Board document, Review of the implementation of the recommendations of the Conference (TD/B/82/Add.2).

both temperate- and tropical-zone products. With respect to the former, the effect of the common agricultural policy is to increase the Community's self-sufficiency and, eventually, to create or build up existing exportable surpluses, which will be supported by export subsidies and thus be able to compete on terms unfavourable to the developing countries. The problem as regards tropical-zone products lies in the discriminatory policy adopted by the Community, which grants free access to products originating in a group of associated countries, while it applies a common external tariff, import quotas and other restrictions to the remaining developing countries, including Latin America.

The use of the term "preferences" has become widespread for describing the free access afforded by the Community to associated countries and other countries with which special agreements have been signed or are being negotiated. This policy would undoubtedly be better described as "discriminatory", since it does in fact place most of the developing countries in an unfavourable situation. The concept of preferences is, however, appropriately used to describe the special tariff treatment that the developing countries are attempting to secure for their manufactures and semi-manufactures in the markets of the developed countries. This is not just a question of semantics; the objectives of the two policies are so different that it is essential to maintain a clear conceptual distinction between them.

The application of this policy of discrimination and its gradual extension to other countries, maintaining its discriminatory bias against a large number of developing countries, has created mistrust and friction between different groups of developing countries. This conflict of interests between the countries benefiting from the policy and those being discriminated against was apparent at the first session of UNCTAD and was settled on a compromise basis with the adoption of a transitional recommendation according to which the discriminatory policies "... should be abolished pari passu with the effective application of international measures providing at least equivalent advantages for the said countries." However, this formula merely postponed any solution of the problem, since the nature of such equivalent advantages was not defined, and no progress has subsequently been made in

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that connexion. Moreover, the Community has continued to extend the scope of its discriminatory policy by negotiating new agreements (some of which have already been concluded, and others are now in the final stages) with other developing countries.

Although the recommendation quoted above does not specify the nature of these measures providing equivalent advantages, the countries associated with the Community have stated that they should take the form of financial compensation. The Latin American countries, for their part, have maintained the position that the fundamental objective still remains the fulfilment of the Programme of Action approved at the Ministerial meeting of GATT in May 1963, and included in the UNCTAD recommendations, on the total elimination of import charges on tropical-zone products. At the recent session of the GATT Committee on Trade and Development in January 1967, the problem seems to have reached a critical phase, since some of the developing countries benefiting from this discrimination stated that they were no longer prepared to join in any move to secure fulfilment of the agreement on free access for all tropical-zone products, until the corresponding compensatory measures have been adopted and actually applied.

The already complex problems involved in any financial evaluation of the advantages enjoyed by these countries in the Community market as a result of the discriminatory treatment are even more difficult in light of the recent trends followed by the Community's imports from the main groups of developing countries. On the one hand, spokesmen from the associated countries state that their countries' share of the Community's total imports has not increased at the same rate as the increase in imports from other developing countries (Latin America, for example). This is tantamount to recognizing that the trading advantages granted to the associated countries have not in fact brought about any sizable increase in their exports to the Community market. On the other hand, the Latin American countries, whose exports to the Community in the period 1962-65 have increased at a faster rate than those of the associated countries, have always stressed the fact that the main problem is not the immediate effect

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of these trading advantages, but the threat they pose to the maintenance of Latin America's share of the Community market in the future.^{5/}

The paradoxical situation thus arises that the countries defending the maintenance of this discriminatory policy, from which they expected to obtain trading advantages, recognize that their hopes have not been realized, but in spite of this they are unwilling to renounce these advantages unless they receive financial compensation. Moreover, an ex ante evaluation of what these advantages mean in terms of cash presents enormous difficulties in view of the number of variables that have to be taken into account, since even in the case of specific products such as coffee, where weighting would seem to be more feasible, differences in quality, the trade contacts established, consumer habits, etc. are factors that cannot be measured in financial terms.

It is clear that all the problems relating to this discriminatory policy have not yet been studied with the depth warranted by its many implications. It has not, for example, been established whether the advantages conceded by the EEC to the associated countries are equivalent, more favourable or less favourable than the special agreements on prices and guaranteed quotas which those countries had with France previously. Such a comparison would provide some sort of basis for drawing up formulas to establish the amount that should be paid in compensation. At the same time, there is an urgent need for the Community and the associated countries to start negotiations as soon as possible to determine the form and size of these compensations. This is a responsibility that the Community must shoulder, since the advantages it offers to the associated countries are by no means one-sided. Up to now the problem has been dealt with as if it was entirely a question of a conflict of interests between the countries associated with the Community and the remaining developing countries. This is obviously not the case.

^{5/} In the first nine months of 1966, for example, imports from the associated countries increased by 18 per cent, as against an increase of only 4 per cent in imports from Latin America.

(c) The policy of intergovernmental commodity agreements or arrangements

Among the most important recommendations adopted by the United Nations Conference on Trade and Development of 1964 is that relating to intergovernmental commodity agreements, which in addition to treating in detail and at length the aims, principles and scope of these indicates the different forms which can be adopted in order to make them compatible with the specific characteristics of each commodity and to provide them with the instruments and mechanisms of action needed for them to accomplish their proposed aims. Until this Conference came into being the negotiation of commodity agreements was generally a last resort measure of purely circumstantial scope and justifiable only on the limited basis that it might have the effect of remedying such emergency situations as those produced by a disequilibrium between production and consumption.

The fundamental principle governing the recommendations adopted by the first UNCTAD was, on the contrary, that commodity agreements have a special function in promoting the economic development of the developing countries and constitute, therefore, an integral part of international trade policy. The negotiation of international commodity agreements should consequently be governed by a wider conception of the relations obtaining between foreign trade and development, according to which their use is not confined to the occurrence of emergency situations but is determined by considerations of the contribution which such agreements can make to the expansion of the developing countries trade.

This new conception of commodity agreements has still not modified the attitude of some of the great developed countries, whose participation is in some cases vital for the agreement concerned to have reasonable prospects of success. Thus, if the case is to be judged by the results of the negotiations carried out in the last two years on two commodities of vital importance in the exports of the developing countries - cocoa and sugar - the policy of international agreements does not appear to offer prospects of the widespread and effective progress needed for them to contribute to the expansion of the trade of the developing countries, not even in cases - as those of the two commodities mentioned - where a serious deterioration in price levels makes the negotiation of agreements urgent.

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While the significance of the failures in the international agreements on cocoa and sugar should not be exaggerated, it cannot be denied that such failures make it seem doubtful whether the agreements can be converted within a reasonable period into instruments for promoting a new ordering of world commodities trade which will guarantee reasonable conditions of stability and growth for the products exported by the developing countries. One of the main reasons for these failures is obviously the absence of any determined policy of negotiating and accepting compromise formulas for specific points of the agreements. Another is probably the fact that the new conception of the agreements supposes a more equitable distribution of the efforts and responsibilities assigned to both the importing and exporting countries taking part in them, according to which it should not rest entirely on the latter - usually developing countries - to restore normal market conditions, whose disequilibrium has sometimes originated precisely with the importing countries.

Negotiations on agreements have not been confined entirely to the UNCTAD framework. The negotiations on cereals, meat and milk, whose results cannot yet be predicted, are being carried out in the GATT. The main bases of the agreement on cereals which has been under discussion include a guarantee of access to the markets under which the exporting countries will be able to maintain their present share in the markets of the importing countries and have an appropriate share in the growth of their consumption; a price level which can be considered remunerative for the exporters; and other commitments relating to the regulation of trade transactions and to the food assistance programmes. In the case of meat and milk products the negotiations have been undertaken on bases similar to those for cereals, but have still not made sufficient progress for it to be assumed that there are sure prospects that an agreement will be reached.

(i) Advances in the operative techniques of the agreements. It is clearly useful to examine, though here in brief, the progress which has been made in the establishment of the aims and operative techniques of the agreements, exemplified, on the theoretical plane at least, in the anteprojects which have served as the basis of the negotiations on sugar and cocoa. This examination will also enable some of the aspects to be mentioned in

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which the general consensus needed for a successful conclusion to the negotiations was not achieved. One of the most important points that can be mentioned in this connexion is probably the contradiction which usually arose in the declaration of the aims of the agreements, not on account of the nature of the aims themselves, but in relation to the mechanisms of action for achieving them. Thus, these aims included simultaneously the stabilization of prices in the international market for the product concerned and that of the foreign exchange income of the exporting countries, but as the machinery for regulating the market rested entirely on the regulation of the volume of the exports, the former aim (which was in any case not always achieved) had to be realized at the expense of the latter. It would perhaps be exaggerated to assert that too much emphasis has been placed on the problem of reducing or moderating the extent of price fluctuations in the international market, at the expense of that of guaranteeing greater and growing levels of income from exports, but it is undeniable that before the UNCTAD came into being the agreements were instruments of very limited scope, dependent on the influence which they could exercise on the market through the regulation of exports within more or less precise limits and without any power of action on the side of demand. It is recognized, however, that the instability of the world market for primary products and in some cases the slowness of its growth have frequently been associated with measures affecting the level of demand in the importing countries, as in the case of policies for stimulating internal production, quantitative and tariff restrictions on imports, etc. For this reason the anteprojects for agreements which have been prepared in conformity with the principles approved in the UNCTAD have put special emphasis on the inclusion of clauses embodying commitments on the part of the importing countries that will tend to guarantee their active contribution towards the accomplishment of the aims established in the agreement.

The anteproject for the agreement on sugar constitutes a prime example of the new principles on which the policy of international commodity arrangements is based. The traditional clauses on the price scale, regulation of exports, level of stocks, reserves, etc. are supplemented by specific commitments on the part of the importing countries. One of these commitments

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relates to the purchase of certain minimum quantities of sugar at prices not lower than the minimum limit envisaged, by which the exporting countries are guaranteed a market for a definite proportion of their total production. This commitment, combined with another in virtue of which the developed importing countries would guarantee that not less than 50 per cent of the annual increase in their domestic consumption would be supplied by import, would have offered reasonable prospects of growth for the sugar exports of the developing countries.

The variable customs duties on imports (import levies) designed to make the price of an imported commodity equal to or higher than the price of the equivalent commodity in the domestic market are being extended in the European countries to a considerable number of agricultural products. In the anteproject of the sugar agreement it is proposed in this connexion: (a) that these taxes or duties should not exceed the existing difference between the domestic price of the country concerned and the world market price, and (b) that the amount of the receipts obtained from these taxes or duties should be restituted to the exporting countries. It is not necessary to insist on the importance which the adoption of a commitment such as this would have in the case not only of sugar exports but of all other commodities exported by the developing countries which are liable to duties of this kind, for it would counteract, at least partially, the effects of the excessively protectionist policies of some of the developed countries. This engagement is also in conformity with that (also proposed for sugar) relating to the reduction or elimination of the tariff charges and other duties imposed by many developed countries on imports deriving from the developing countries. As was said above, an engagement of this kind was entered into in the GATT several years ago and was subsequently included in the new Part IV of the General Agreement; its repetition, therefore, in context of an agreement on a specific commodity makes its non-fulfilment all the more unjustifiable.

The agreement's power of action as an instrument for regulating the market is strengthened by the adoption of two further principles. One concerns the establishment of a financial fund which would be used to

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defray the expenses of holding and accumulating stocks whenever the Administrative Council for the agreement might decide that the holding of these stocks was necessary in order to preserve the stability of the market. The other concerns the authorization of the said Council to establish a system of quotas and sales subject to special concessions between developing exporter countries and developed importer countries and to propose at the same time the financial arrangements needed in order that the exporting countries can be paid the difference (if there is one) between the price obtaining in these special sales and the minimum price established in the Agreement.

The adoption of these two principles would provide a remedy for two of the most serious limitations which have traditionally prevented an effective regulation of the market from being achieved and the sale of the exportable surpluses of countries with low incomes and low consumption levels for inhabitants from being facilitated. For the problems of financing the accumulation of stocks in periods of overproduction or of a decline in demand have always tended to prevent the developing exporter countries from strictly fulfilling the commitments or understandings on minimum export prices; instead they have been forced to sell at any price they can get in order to rid themselves of the main part of their exportable surpluses. In some cases the problems over financing the holding of stocks have been aggravated by factors such as a lack of adequate storage installations. As regards sales under special concessions, it is undeniable that not only in the case of sugar but in that of many other commodities the principle would be of real application in the case of developing countries which potentially could achieve an enormous expansion of internal consumption but which cannot purchase the products concerned because of balance of payments difficulties, because they have already assigned higher priority to other imports, or for other reasons of a similar kind. Sales under special concessions (with regard to prices, credits, etc.) would enable the problems of the importing and those of the exporting country to be solved at one blow.

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Still more progress was made in techniques for regulating the market in the anteproject for the cocoa agreement, in this case in connexion with the operation of a buffer stocks reserve. The actual principle of operating an international buffer stocks reserve has never been in dispute; in fact it has traditionally been considered one of the standard models for working out international commodity arrangements, although the only case in which it has so far been applied is that of a metal, tin. If, therefore, a buffer stocks reserve were created for cocoa, it would be the first for any agricultural product. Although it is generally recognized that the technical and administrative problems involved in the operation of a buffer stocks reserve for an agricultural product (not counting, of course, quickly perishable commodities) are more acute than those arising in the case of mineral product, it is also admitted that they are not insuperable. The greatest problems arise, however, in the aspects relating to the method of financing to be used and the nature, degree and timing of its intervention in the market.

In the preliminary negotiations on cocoa, the problem of the financing of the reserve was posed in terms of a contribution to be made by all the countries taking part in the world cocoa trade, which in itself constituted an effective recognition of the principle that the stabilization of the market for this product was the responsibility and for the benefit of the importing as well as the exporting countries. Although many of the countries of the former groups were disposed to contribute towards the financing of the reserve, since some did not show the same spirit of co-operation, unanimous agreement on this problem was not reached. A provisional solution was arrived at when the exporting countries agreed to establish a tax on exports of the product concerned, which would provide part of the financial resources needed to operate the reserve. This method of financing constituted, however, no more than a partial solution - that is, it would provide the regular income needed to cover the running costs of the reserve and might over the long-term serve to constitute its capital - but did not solve the immediate problem of the initial capital contributions needed to establish it, without which it would have no function whatever. While these difficulties in connexion with the

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constitution of the initial capital of the reserve (that is, the prefinancing stage) were still unresolved, there appeared further disagreements over the character of the operations to be carried out by it, because some of the developed countries wished to establish prohibitions and limits which obviously would have reduced its effectiveness in maintaining stable market conditions.

The commodity agreements previous to UNCTAD usually included clauses concerning the need for the member countries to orient their domestic production policies in conformity with the aims of the agreement concerned. For example, it was stipulated in the International Sugar Agreement of 1958 that the exporting countries should regulate their production by means of appropriate legal measures in such a way that it should not exceed the quantities needed to satisfy their domestic consumption, supply the export quotas assigned them and maintain the reserves envisaged in the Agreement. However, in practice these commitments were not strictly observed and each country continued to orient its domestic production policy according to its own interests.

The need for domestic production policies to be as far as possible adjusted to the requirements of world demand is beyond doubt, but it is also beyond doubt that the political conditions which would allow for such a considerable degree of co-ordination do not yet exist. In order to prevent the large-scale and persistent dislocations between world production and consumption, or to remedy them when they do occur, the first steps towards achieving the above aim might be made through inter-governmental consultations carried out in the international commodity Councils, study groups and similar organizations. Some progress has already been made in this direction, but the greater degree of co-operation between the different countries needed for the accomplishment of this aim has still not been reached. It may be mentioned, as an example of this progress, that according to the anteproject of the cocoa agreement the exporting countries are to assume the obligation of making periodical reports to the Council on the measures which they are taking to adjust their production to the needs of the market and to accomplish their production programmes. In the same way the member countries of the International Coffee Agreement are in the process of establishing production targets which will enable the

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stability of the international market for this commodity to be re-established. In these two cases, since the commodities concerned are tropical-zone products, the responsibility for the regulation of domestic production policies rests entirely on developing countries which export them, but this would not be the case for temperate-zone agricultural products, the exports of which by developing countries have to compete with the domestic productions of the developed countries. In the case of sugar and other commodities which are produced by both developed and developing countries, the obligations concerning the control of production should be more strict for the former than for the latter seeing that the former generally have to subsidize their production and exports. If the obligation to control production rested solely on the developing countries the result would be that these, individually and as a group, would suffer a fall in their share in the world market.

A further aspect associated with the regulation of domestic production policies concerns the developing countries' programmes for diversifying exports. In the long run no stabilization policy for the world market in primary commodities can have permanent results if it is based solely on the regulation of the volume of exports and the control of stocks through the operation of buffer stock reserves. At best these modes of action can only help to maintain a short-term relative equilibrium in the market and to moderate the extent of the fluctuations in international prices, and even at a short term their success cannot be relied on if the structural tendencies towards disequilibrium are not removed. From this follows the need for the domestic production policies of the countries which fundamentally depend on exports of a very few primary commodities to establish adequate programmes for the diversification of their exports and the importance of creating in the international commodity agreements the mechanisms needed to promote this diversification. An example which illustrates the way in which a programme of this kind can be initiated is the proposal being considered by the member countries of the International Coffee Organization, according to which a fund formed from contributions from the exporting countries (in proportion to the

volume of their exports) and from voluntary contributions from the importing countries should be established. This would be used to provide loans to any of the producing countries which undertook programmes for substituting their cultivation of coffee. If this proposal is approved (with any modifications on the method of financing which the countries themselves agree to) a very important step will have been made towards a solution of the acute disequilibrium of the world coffee market and invaluable experience will have been gained that will be applicable to other commodities of importance in the exports of the developing countries.

(ii) Other kinds of commodity arrangements. The greater the stress laid on the fact that the international commodity agreements should be more effective instruments for accomplishing such aims as a more rapid expansion of stable and remunerative prices of the developing industries' trade, the greater have become the difficulties involved in negotiating them, particularly on the side of the importing countries. No definite conclusion should be drawn from the fact that the negotiations on sugar and cocoa have turned out as fruitless as they have been prolonged and complicated, but it cannot be denied that it has begun to be doubtful - as was mentioned above - whether there is any real prospect that agreements of this kind will be made for any appreciable number of products on terms satisfactory for the developing countries. However, in spite of a certain feeling of frustration on the part of the developing countries on account of the apparent impossibility of reaching a satisfactory accord in the case of the two products mentioned, it is hoped that in future stages of the negotiations the unanimity needed to establish the agreements will finally be attained.

Some attempts were made to discover other kinds of arrangements for these two products, but were abandoned as soon as it was seen that they offered no hopes of success. As an example, before the renewal of the Conference on cocoa, a very few of the exporting countries tried to regulate the market by controlling exports and fixing a minimum export price, but their efforts were not supported by all the producing countries and could not be kept up for long enough to have any effect on the market. A project, again, in connexion with cocoa, for making the importing countries

suspend - at least temporarily - their import duties met with no better success in face of the refusal of these countries to consider any measure relating to tariff charges outside the Kennedy Round negotiations. In the case of sugar, the main exporting countries made a short-term agreement to establish a minimum export price, but as this was not strictly observed by some of them it was abandoned a few weeks later. The impression given by this is that neither the importing countries (in some cases) nor the exporting countries (in others) have been genuinely disposed to co-operate effectively towards solving the market problems of these two commodities.

The recommendations of the Final Act of the UNCTAD explicitly recognize that it may perhaps not be possible or in all cases necessary to negotiate agreements having all the characteristics specified in the recommendations. Obviously international commodity arrangements can range from simple intergovernmental consultations to agreements of all degrees of formality (including those on minimum sales prices and maximum export volumes), the different kinds of arrangements depending on the characteristics of the commodity and the aims which the agreement is intended to achieve. Recently, for example, the International Consultative Committee on Cotton, after examining a report in which the characteristics of an international contingency agreement were analyzed, finally came to the conclusion that it was not advisable to establish an agreement based on the export quotas mechanism, but that instead it was necessary to strengthen the present functions of the Consultative Committee by creating a Sub-Committee on Policies in order to make the system of intergovernmental consultations on matters relating to the prices and exports of this commodity more effective.

In fact, the existence of the International Consultative Committee on Cotton itself constitutes an international agreement; what was being examined was the expediency of providing it with more effective means of action, but study of the technical characteristics of the commodity and of its conditions of production and export showed that it was not advisable to establish an export quota system as a mechanism for regulating the market, because a restrictive system of this kind might accelerate the

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trend towards the substitution of cotton by man-made fibres. It is, on the other hand, perfectly possible to concentrate the activities of the International Committee on Cotton on such matters as promotion of consumption, research into and propagation of techniques for increasing and improving plantation yields (which might, by reducing production costs, result in lower prices), and, as the most fundamental, the extension of the system of intergovernmental consultations in order that from being simply meetings for the purpose of exchanging information they can become a means of reaching multilateral decisions on production and export policies for cotton.

The Organization of Petroleum Exporting Countries (OPEC) provides another example of the sui generis forms under which international commodity agreements can function. The constitutive charter of this Organization is a document of great brevity: it defines the aims of the Organization as: "to unify petroleum policies for the member countries and determine the best means of safeguarding the interests of member countries individually and collectively".^{6/} For this purpose it establishes a system of regular consultations through which the stabilization of petroleum prices and the regulation of production is to be ensured, with due attention paid to the interests of the producing and consuming countries and to the need for guaranteeing a stable revenue for the producing countries, an efficient, economic and regular supply and a reasonable profit on their capital for investors in the petroleum industry. The most novel aspect of the Organization is the principle of collective solidarity on which the effectiveness of its decisions rests. Thus, its charter further establishes that if as a result of the application of any unanimous decision reached in a Conference of the Organization direct or indirect reprisals are employed by any interested company against one or more Member Countries, no other Member will accept any offer whatever of advantageous treatment, whether in the form of an increase in its exports or a rise in the prices paid it, made by one or more of the said companies with the object of discouraging the application of the unanimous decision of the Conference.^{7/}

^{6/} See, Organización de Países Exportadores de Petróleo, National Press, Caracas, 1961.

^{7/} Idem.

There is perhaps no other institutional structure in matters relating to the production of and trade in a basic commodity as simple and at the same time as effective as that of the OPEC. This is partly due to certain special characteristics of the commodity: the member countries of the Organization constitute a very small group which nevertheless controls over 80 per cent of world petroleum exports; the regulation of production is relatively easy and does not involve storage problems; the problems confronting each of the exporting countries individually are relatively homogeneous because in all of them production is controlled by enterprises or companies affiliated to the great international consortia; etc. Since it is probable that trade in other commodities does not present similar conditions, the bases on which can be created an institutional structure capable of accomplishing the aims assigned to traditional agreements regarding them will have to be different. Copper, for example, an important commodity in Latin American exports and of special importance in those of Chile and Peru, has certain characteristics which would make it advisable to sound out the prospects of an inter-governmental arrangement in which in addition to the two countries mentioned a number of other developing countries would take part (in particular, Mexico, Zambia and the Congo). This arrangement would not necessarily have to take the form of an agreement of the traditional type, and might better consist of a system of consultation, policy co-ordination and solidarity in action, similar to that adopted by the OPEC.

For certain commodities this line of action undoubtedly has a number of advantages over the approach under which the activities of the developing countries tend to be concentrated on the negotiation of agreements of the traditional type. Although it must be recognized that it also has its limitations, it might in some cases constitute a means of overcoming obstacles similar to those which arose in the negotiations on cocoa. What is important is that it should be recognized that it is not a necessary condition for advancing in this line of action that the commodity in question should be confronting special market problems. It is, rather, preferable that the developing countries should define as early as possible the bases of a general understanding and the forms of an institutional

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structure which would enable them to make concentrated efforts towards well-defined aims such as guarantees of market access, the reduction or elimination of tariff barriers and other restrictions, remunerative price levels, etc. If anything has been learned from recent experience in connexion with the negotiation of agreements it is that the developing countries must make up their differences and adopt common positions before attending the negotiatory conferences if their capacity of negotiation is not to be greatly reduced and to be open to the manoeuvre of creating conflicts of interests between countries of the same group.

(iii) The establishment of buffer stock reserves. Considerable attention is now being paid to that part of the policy of international commodity arrangements relating to the problems concerning the establishment and operation of buffer stock reserves. Since the establishment of these reserves depends on certain characteristics of the commodity (durability, means and cost of storage, international quality standards, etc.) there are only a few primary commodities for which it can be applied. In addition, since the function of a buffer stock reserve is to carry out buying and selling operations for a commodity in such a way that the prices do not exceed previously settled maximum and minimum limits, its establishment can only be considered within the framework of an agreement and as part of a stabilizing mechanism which includes other modes of action, such as the regulation of exports, the control of production, etc. Under these conditions the two central problems to be solved prior to the establishment of a buffer stock reserve concern: (a) determination of the volume of the reserve and the conditions under which it is to intervene in the market, and (b) the method of its initial or prior financing. It might seem that there are no very great obstacles to reaching agreements on aspects relating to point (a), but the negotiations have made it clear that there may arise differences large enough to limit or substantially reduce the stabilizing function of the reserve. In this connexion it would be useful if the developing countries would reaffirm their position respecting the need to make the operations of the reserve far-reaching enough for it to accomplish its purpose of stabilization, that is, that it should not be limited to functioning of a simple buying and selling agency for surpluses.

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As regards financing problems, it would also be expedient for the developing countries to reaffirm as a question of principle their position that the developed countries should also be responsible for contributing to the financing of buffer stock reserves, not as a good-will gesture on their part, but in recognition of the fact that the stabilization of prices within certain margins benefits both groups of countries. Among the various formulas which have been proposed for this financing, the most unfavourable from the point of view of the developing countries are those based partly or wholly on the establishment of an export tax, for this would amount to a reduction of their income; and although this reduction would not ultimately involve any loss for them it would at least deprive them of a certain sum of foreign exchange resources which could otherwise be used to supply their urgent import needs. If the tax was applied on imports (a method which was not accepted in the negotiations on cocoa), there would be some chance that the final incidence of the tax would fall on the exporters, which really would constitute a net loss for them. On the other hand, the international finance organizations have stated that their statutes do not allow them to take part in operations of this kind. These organizations, however, cannot justifiably withhold their support from projects of this nature when they constitute nothing less than the logical extension of their development loans policy (since they contribute indirectly to development) or of the policy of loans for stabilization purposes.

The Secretariat of UNCTAD recently brought out a proposal for a solution to some of the difficulties which have appeared over the financing of buffer stocks. According to this a central fund should be constituted from capital subscriptions by the governments and the international finance organizations, which would be responsible for the prior financing of buffer stocks created under an international agreement on the commodity concerned. Since the actual operation of the stocks would continue to be the exclusive responsibility of the administrative council of the agreement, the fund would only act as banker for the buffer stocks, in accordance with which function it might even receive deposits made by the international administrative council for the commodity.^{8/} A model of this kind does not present

^{8/} Operation and financing of buffer stocks: outline of a study for the second session of the Conference, (TD/B/C.1/29), January 10, 1967.

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very great difficulties as regards its operative details and might be able to overcome some of the objections made by the international finance organizations to their taking part in activities of this nature. The creation of a fund such as that proposed would have a number of advantages over other forms of financing, among others that the total financial resources for the combined operation of stocks for two or three commodities could be less than the sum needed for two or three individual stocks and that the fund would have better facilities for obtaining commercial loans when these were needed for undertaking a greater volume of operations than would other financing systems.

This proposal has indisputable merits and it is to be hoped, therefore, that it will receive attentive consideration from both the governments and the international finance institutions whose participation would seem to be essential for it to be viable. There are some aspects which remain to be elucidated, but this could be done once the proposal had been accepted as a basis of negotiation. As an example, it apparently limits the functions of the fund to the provision of the initial capital for the buffer stocks (what is now generally called the pre-financing stage), without taking into account that these stocks must also have a source of regular income to cover their operation costs (including in these the servicing of their capital). The size of this regular income can vary considerably from one commodity to another, according to whether it is a mineral product (for which storage costs are low) or an agricultural product (for which storage costs are necessarily higher). Part of the operation costs might be covered from the profits obtained from purchasing at the minimum and selling at the maximum prices established in the relevant agreement, but a period of months or even of years may pass before the second of these operations can be carried out.

(d) Bases for a general agreement on international commodity arrangements

The Commodities Committee of UNCTAD and its Permanent Sub-Committee have as part of their working programme a project for a general agreement on international commodity arrangements. During its first sessions (half way through 1966) the Permanent Sub-Committee made a preliminary

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study of this matter and concluded that it would be premature to attempt to prepare a project for an agreement without first making a detailed study of the problems which are liable to arise in the formulation of an international commodities policy. It also considered, without reaching a decision on the matter, the question of whether the general agreement should consist in the drawing up of a body or codex of principles which would serve as a guide for the countries in the field of commodities or whether it should be attempted to work out an agreement of the contractual type, similar in its general pattern to the General Agreement on Tariffs and Trade (GATT).

No subsequent advances have been made in the study of this matter and consequently there still does not exist any very precise idea of the direction which will be taken in preparing the said agreement. The considerations given here are, therefore, of a very preliminary nature and are intended solely to establish some of the points respecting which it is vital that the Latin American countries should define a common line of action.

It is undoubtedly more desirable that a body of principles or standards which would serve as a guide to the countries in their policies respecting commodity trade should be drawn up than that the principles and standards should be confined to the international commodity arrangements. Nevertheless, it is not unreasonable to question whether this body of principles - in the case of its covering the whole field of commodity trade policy - would be an addition of any value to the general and special principles contained in the Final Act of the UNCTAD, the recommendations contained in the Annexes of that Final Act, and the new Part IV of the GATT. The same doubt would arise even if the most limited criterion was adopted, namely that this body of principles would cover only the aspects relating to the negotiation of international commodity agreements or arrangements. On the other hand, any attempt to establish a model agreement which would serve as a standard for the negotiation of arrangements on different commodities would simply result in a repetition of the experiences of earlier negotiations where it became obvious that agreement on questions of principle by no means guarantees agreement on the operative clauses of the relevant agreement or arrangement.

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The other alternative, that this body of principles and standards should be embodied in a contractual agreement, does not seem to offer better prospects. The majority of the countries would only be prepared to subscribe to an agreement of this kind if its principles and standards were of a general nature, thus leaving plenty of room for differences of interpretation and for waivers and safeguard clauses.

These considerations would seem to lead to the conclusion that a project for a general or model agreement for international commodity arrangements does not have much better prospects of making a contribution to the solution of the trade problems of the developing countries than those already offered by the engagements contained in Part IV of the GATT and by the general and special principles of the Final Act of the UNCTAD. It would serve no useful purpose to reopen in the near future the discussions on questions of principle in the field of commodities; what is now important is to negotiate on the basis of the principles already approved.

(e) The international organization of commodity trade.

One of the proposals which aroused great interest during the discussions held in the UNCTAD of 1964 was that presented by France respecting the international organization of commodity trade. The study of this proposal was initially entrusted to an ad hoc Working Group and subsequently transferred to the Permanent Sub-Committee of the Commodities Committee. In the first stage of its labours the Working Group agreed that consideration of the problems relating to international organization of the commodity markets should proceed in two main directions. In the first place, a study should be made of the general problems posed by international organization of markets, in which concepts relating to the terms of trade, the purchasing power of exports, etc. should be defined. In the second place, the specific problems which arise when these general concepts are applied to cases of particular commodities should be identified. In this latter connexion the Working Group recommended that studies should be prepared on representative commodities of three main categories, namely: (i) non-substitutable tropical-zone products (cocoa); (ii) raw materials for which there are synthetic substitutes (natural rubber), and (iii) commodities produced by both the developed and the developing countries (vegetable fats and oils).

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By adopting these resolutions both the Working Group and the Permanent Sub-Committee tacitly relegated consideration of the French recommendation to a later stage of this work, thus neglecting an opportunity of embarking on the discussion of certain question of principle essential to that recommendation. In the third Meeting of the Ad Hoc Committee on Latin American Co-ordination (CECLA) at the Expert Level (Mexico City, July 1966), the Latin American countries approved a Resolution, one of whose points assigned to the ECLA Secretariat the task of making a study of the problems relating to the proposal on the international organization of commodity trade, in order that these countries can assume a definite position with regard to it in the Second UNCTAD.

There are undoubtedly questions of the utmost interest which could usefully have been elucidated prior to or at least simultaneously with the study of the specific problems of the organization of trade in individual commodities. In this connexion, one of the most important points raised by the French proposal is its assertion that the obstacles to trade are not the fundamental problem for the exports of the developing countries and that no progress whatever will be made in this field unless agreements are first reached on questions relating to the organization of production and the stabilization of the prices of the products exported by these countries.^{9/}

On this line of argument, the elimination of the obstacles to trade (in other words the markets access thesis) is no more than a modern version of the liberal theories of the 19th century, according to which the universalization of free trade would enable all problems over trade to be solved. However, it is asserted, "there never was a free world market. The world market of the nineteenth century was really a market organized and controlled by a few predominant financial centres which took all the main decisions concerning the orientation of international investment". The argument concludes with the assertion that even if it could be

^{9/} See, Memorandum concerning certain items on the agenda of the United Nations Conference on Trade and Development, submitted by France (United Nations Publication N° 64/II.B.16) vol. VI. p.18, and, The Trade and Development Board (TD/B/3), February 16, 1965 p.11

/demonstrated that

demonstrated that the opening up of the markets (if that was always possible) would result in an increase of the volumes exported, there would remain the question of why international efforts should be concentrated on the removal of these apparently secondary effects of commodity trade instead of on the correction of more basic factors. In other words, why should international action in the field of prices be limited to the moderation of the sudden price fluctuations instead of being concentrated on the application of a policy of remunerative prices which would counteract the unfavourable trend in the prices paid to the primary producers? Consequently, the fundamental principle by which the international organization of commodity trade should be governed is that the present system under which prices result from the free interplay of supply and demand should be replaced by a system of prices internationally fixed at levels which will be remunerative for the producing and reasonable for the consuming countries.

These are, in brief, the essential arguments of the French proposal for the international organization of commodity trade. This organization would be based on a body of international commodity agreements which would establish target prices, or price scales, at levels which in the case of temperate-zone agricultural products would be approximately those of the domestic market prices of the developed countries, and in the case of tropical-zone products would be maintained in relation with the increases in the prices of the temperate-zone products. In order to achieve and maintain these price levels export quotas and, when necessary, import quotas would be established and any other means of regulation required for the effective functioning of the agreements instituted. These agreements would, therefore serve as mechanisms for transferring a fraction of the income of the developed countries to the developing countries similar in both form and methods to those used within the developed countries to transfer part of the income of the urban sector to the rural sector.

If the promotion of this transfer of income via the prices paid to the developing countries for their exports was to be made the fundamental objective of international organization of commodity trade, there is little doubt that an organization of this kind would constitute a most important advance towards a solution to the problems of commodity trade and a

/most positive

most positive contribution to the development of these countries. But certain doubts remain. In the first place the barriers to the exports of the developing countries existing in the developed countries cannot be considered as of secondary importance. The size of these barriers, both tariff and of other kinds, varies from one product to another and in the different countries, but in any case they constitute one of the fundamental limiting factors for the expansion of the developing countries' exports. The emphasis place by these countries on measures designed to eliminate or reduce these barriers is certainly not based on the belief that a free trade system (in the usual sense of this phrase) might be established, but rather reflects their experience of being deprived of sufficient access to the markets of the developed countries either by direct restrictions or by duties and charges which reduce the effective prices paid to the developing exporter countries and at the same time limit the possibilities of an expansion of consumption, in the developed importing countries. Apart from this, it does not seem reasonable to suppose that the emphasis placed by the developing countries on measures designed to give them greater access to the markets of the developed countries is in any way incompatible with the simultaneous adoption of measures in other fields, such as that of international price agreements or arrangements or other forms of arrangement embodying multilateral commitments to promote the exports of the developing countries at remunerative prices and on terms which guarantee the maintenance of their purchasing power.

There is nothing to object to in the proposal in itself that the international organization of commodity trade should consist in the negotiation of a series of international agreements on commodities of importance in the developing countries' exports and that the fundamental objectives of these agreements should be to raise the prices of the commodities concerned. On the contrary, there is everything to approve. These agreements, whose character could vary according to the different commodities, would represent instruments for a new ordering of the trade relations between the developed and developing countries. The basis of this new ordering, as is argued in the French proposal, will be the acceptance

/by the

by the developed countries of the transfer of a fraction of their income to the developing countries through a rise in price levels, which will reverse the process of transfer from the latter to the former which has taken place as a result of the persistent decline in primary commodity prices and of the deterioration in the terms of trade effect as between these and manufactured products.

But acceptance of this principle of the transfer of resources by way of prices encounters its greatest obstacles precisely among some of the developed countries. The reasons are obvious: it is more convenient for these countries that the transfer should be made mainly in the form of loans, because these can be provided or withheld in relation to the establishment of specific conditions. However, although recent experience of the negotiation of commodity agreements has not been encouraging, it is clear that the developing countries must continue to unite in their efforts to make the developed countries accept the essential principles of a policy designed to guarantee higher prices and greater access to the markets for their exports. The studies of the general aspects and specific problems of an international organization of the markets referred to above are confirming the arguments which the developing countries have been putting forward in this connexion. Thus, the studies on representative commodities belonging to the three main categories of primary commodities reveal that in the case of each of these it is both possible and necessary to introduce organization models for their trade which will tend to correct the shortcomings of the present structure of world commodities trade. Although they mention both minor and major difficulties which would have to be solved in order to achieve this aim, their general conclusion is that, since in organizing the markets of many of the developed countries solutions were found for similar problems, these difficulties are not insuperable if there is a resolute policy for overcoming them.^{10/}

^{10/} For a summary of the main conclusions reached in the studies on the general and specific problems of international organization of commodity trade, see International organization of commodity trade, Reference document presented by the Secretariat of the UNCTAD, (TD/B/C.1/PSC/L.2), June 27, 1966.

2. The processed and semi-processed products trade

(a) Some problems relating to the supply of processed products in the Latin American countries

Increasing emphasis has come to be placed on the need for the developing countries to achieve a steady growth in their exports of processed and semi-processed products. As well as producing larger foreign exchange revenues, this would considerably help to reduce the vulnerability of their external sectors, both because of the more diversified structure of their exports - which would no longer be exclusively dependent on a few primary commodities - and because processed and semi-processed products are less subject than commodities to large and frequent fluctuations of price and volume. Moreover, the establishment of a regular and increasing flow of processed product exports would enable the Latin American countries to share in the expansion of the most dynamic sector of world trade and would at the same time produce benefits for their economies considerably more substantial than those resulting from their exports of primary commodities, considering the greater value added incorporated in the former and the stimulus which their export gives to the industrial development process.

In considering the problems relating to the supply and exports of processed products a distinction should be drawn between the countries which already have a sufficiently developed industrial basis and those in which this basis is still in its incipient stages. In the latter the expansion of trade in processed products presupposes the prior expansion of the productive basis and, in particular, the establishment of industries with export potential.

The problem is quite different in the countries which already possess a relatively developed industrial basis, whose exports of processed products should, therefore, be considerably more dynamic than has so far been the case. This is due to a number of well-known factors, particularly to the fact that their industrial development has been oriented almost exclusively towards the domestic market, that is, towards import substitution, and has been carried out behind very high protective tariff barriers. As a result,

/industry has

industry has developed in relation to a small domestic market and without the spur of competition; its competitive position has been poor because it has had to use high-cost domestically produced inputs; its development has in some products been oriented exclusively towards the domestic market; and in most of the countries there has been no proper economic policy. A great many of the industries which have been developed are, therefore, relatively inefficient. In addition, the entrepreneurs have not usually been interested in entering the external market.

The lack of initiative with regard to the export trade among the entrepreneurs and the absence of a systematic promotion policy for exports on the part of the governments are clearly demonstrated by the fact that in most cases industrial plants operate at levels which rarely exceed 70 per cent of their installed capacity; that is, there is normally a considerable margin of idle capacity and, consequently, of unused export potential, in spite of the fact that if it was used it would result in an appreciable reduction in production costs. Only on exceptional occasions, usually related to periods of strong contraction in economic activity and, consequently, in domestic demand, have certain entrepreneurs made efforts to find export markets; but although these usually had some measure of success, they were not maintained after the return of domestic demand to its normal level.

It should, however, be recognized that in the last few years a number of Latin American entrepreneurs have shown themselves increasingly concerned with the export trade and have been stepping up their efforts to sell their products in foreign markets, while the governments have been adopting a variety of measures to promote these exports. These measures, however, have been of relatively limited scope and have not given shape to a coherent and systematic programme. The same reservations apply to the technical assistance which the countries have been receiving with regard both to the establishment and expansion of industries oriented towards exports and to the actual promotion of exports of processed and semi-processed products.

The recognition of these limitations and shortcomings led the governments of the developing countries to insist before the UNCTAD and the United Nations Centre for Industrial Development on the need for

/greater activity

greater activity in the field of the development and promotion of their exports of processed products. As a result, these organizations established a group of experts which met in October 1966 to advise on the sectors in which the United Nations should for these purposes provide technical assistance to the developing countries. The matter was also discussed in a special session of the Executive Secretaries of the United Nations Regional Economic Commissions in January 1967, and there the decision was made to combine activities and resources in a United Nations programme for the promotion of the developing countries exports.^{11/}

The joint studies made by the ECLA and UNCTAD secretariats on the past situation in and prospects for the processed product exports of certain Latin American countries having a significant degree of industrial development ^{12/} - whose estimates are given in table 10 - show the extent to which they could be increased in the short and medium term simply by making proper use of the present production capacity of a number of industries, given that a satisfactory solution is found to the obstacles mentioned above and that certain conditions, such as sufficient available raw materials, improvements in the conditions of operation of the industries and in certain institutional aspects, etc., are fulfilled. Although these estimates only represent orders of magnitude, they do indicate the extent to which the growth of processed product exports is being held up by factors due to conditions of supply; they also indicate the considerable size of the expansion potential, which could be exploited by means of energetic and systematic work on these factors while at the same time continuing to attend to the obstacles to this growth constituted by present or future restrictions on the access of these products to the developed countries' markets.

^{11/} See ECLA, Nota de la Secretaría sobre trabajos conjuntos con la UNCTAD y ONUDI en materia de fomento de exportaciones de manufacturas (E/CN.12/780), and Nota de la Secretaría presentando el informe de la reunión de expertos sobre la asistencia técnica de las Naciones Unidas relacionada con las exportaciones de manufacturas y semimanufacturas de los países en desarrollo (Geneva, 24 to 28 October 1966) (E/CN.12/781).

^{12/} These studies, which have been finished for Argentina, Brazil and Chile and are in preparation for Colombia and Venezuela, will be jointly submitted by the UNCTAD and ECLA secretariats to the UNCTAD Committee on Manufactures.

Table 10
TOTAL PROCESSED PRODUCT EXPORTS, WITH SHORT AND MEDIUM-TERM PROJECTIONS,
OF SELECTED COUNTRIES
(Millions of dollars)

		Exports made						Estimates of potential export capacity		
		1960	1961	1962	1963	1964	1965	Short-term (1-2 years)	Medium-term (4-5 years)	
		Argentina	Total exports	1 079.2	964.1	1 216.0	1 365.1	1 410.4	1 492.8	
	Processed product exports	115.9	131.6	122.2	201.3	201.3	...	317.0	406.0	
Brazil	Total exports	1 268.8	1 403.0	1 214.2	1 406.5	1 429.8	1 595.5			
	Processed product exports	36.7	57.2	46.8	50.1	93.5	157.8	{ 160.5 98.5	208.5 130.5	Alternative I a/ Alternative II b/
Chile	Total exports	490.0	508.1	532.1	542.0	625.8	687.9			
	Processed product exports	36.7	39.2	33.0	33.7	76.8	92.7	100.0	200.0	
Venezuela	Total exports	2 383.9	2 452.3	2 543.4	2 465.3	2 481.2	2 459.7			
	Processed product exports c/	9.0	7.2	17.4	30.9	19.1	13.7	125.0	160.5	

Source: "ECLA/INSTITUTE/IDB joint programme for industrial integration".

a/ With domestic demand restricted.

b/ With normal domestic demand.

c/ Provisional data.

(b) Problems of access to the developed countries' markets and suggestions for a programme for liberalizing this access

In the resolutions of the first UNCTAD and in the GATT action programme special emphasis was laid on improving the conditions of access of processed and semi-processed products deriving from the developing countries to the markets of both the market economy and the centrally planned developed countries. The non- or partial fulfilment of the approved commitments, resolutions and recommendations has tended to prevent the diversification and expansion of these exports, as was stressed by the developing countries in their complaints during the fourth sessions of the Trade and Development Board on the slow progress made in this matter.^{13/} The retention of a great many residual restrictions on imports of processed and semi-processed products whose export has been qualified as of special interest to the developing countries has also been mentioned in GATT. These restrictions are often actually inconsistent with the General Agreement.^{14/}

All this points to the need, not only for a programme for facilitating the access of processed and semi-processed products produced in the developing countries (tariff reductions, elimination of restrictions, etc.), but for the adoption and fulfilment of certain minimum commitments which would improve export prospects in relation to existing market conditions. Within this framework the fulfilment of the undertaking not to raise barriers for products of special present or potential interest in the developing countries exports (standstill agreement) is of fundamental importance. It will be of no use to aim at improving conditions of access or to obtain any form of advantage or preference if, when export flows of

^{13/} The Committee on Manufactures mentioned the non-removal of obstacles to processed and semi-processed product exports of interest to the developing countries and recommended that sectorial studies should be undertaken, beginning with timber and forest products and followed by studies on fish products and iron ore.

^{14/} See, for example, the reports of the Committee on Trade and Development, of the Working Party on Residual Restrictions, and of the GATT Committee on the Kennedy Round Tariff Negotiations.

some significance from the developing to the developed countries are generated, the latter begin to apply restrictions, invoking safeguard clauses or, in particular, arguing that there is occurring or may occur a "dislocation of the market", without having first attempted to make changes in their own production structure which might enable solutions compatible at least with the maintenance of the trade flows to be found.

Similarly, as a response to unilateral actions on the part of developed countries which directly (overall and bilateral quotas, etc.) or indirectly (customs valuation mechanisms or other administrative provisions, "voluntary" export restrictions imposed on developing countries, etc.) close or restrict their markets against processed and semi-processed products of special interest to the developing countries, it would be advisable to create dynamic, executive mechanisms for ensuring the fulfilment of commitments assumed and recommendations adopted in the UNCTAD and, in addition, a system of assessing policies in relation to obligations at the international level. In this connexion it is worth considering whether a mechanism might not be created within the UNCTAD for deciding, in cases of complaints by developing countries respecting the application by developed countries of new and greater restrictions on imports of products of special interest to the former under appeal to safeguard clauses, whether this appeal is justified and, if so, whether the range of the restrictions imposed also is, and for taking action according to these decisions.

In order effectively to improve conditions of access to the developed countries' markets for the developing countries' processed and semi-processed products it is also necessary that a liberalization programme in favour of these products should be adopted; this should, among other fundamental considerations take into account:

(a) that the liberalization of world trade which has resulted from the various negotiations held in GATT has consisted mainly in tariff reductions negotiated between developed countries; with the result that this liberalization has primarily benefited the processed and semi-processed products of special interest to these countries and has not affected the situation of many of those of special interest to the developing countries.

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This is corroborated by analysis of the tariff reductions which resulted from the different negotiations, particularly those of the Dillon Round; and it may be expected that analysis of the results of the Kennedy Round negotiations will lead to the same conclusion;

(b) that the developed countries are genuinely willing to promote adjustments in their industry, particularly in those sectors where the developing countries have most immediate and potential aptitude and prospects for expanding their exports, in order to adapt their domestic conditions to the changes in international trade which are being produced by the increasing industrialization of the developing countries;

(c) that in the cases where the difficulties of access derive from fear of competition by other developed countries, products deriving from the developing countries should be individualized by opening tariff sub-items;

(d) that the countries of centrally planned economy should envisage in their import programmes special quotas or provisions for purchases of processed and semi-processed products from developing countries. Among the trade arrangements which conform to this principle are the plans for sale of industrial equipment to be paid for by exports of processed and semi-processed products made with this equipment from the developing countries which import it;

(e) that the distortions in the tariff of many developing countries, as regards different levels according to degree of processing, should be eliminated. The level of protection is often also related to the degree of fractioning, especially in the case of food products and products destined for final consumption;

(f) that the problem of the incidence and availability of marine freightage should be thoroughly considered, for, since this often depends on the size and direction of trade flows, it usually involve proportionally greater charges for exports of processed products from developing countries to developed countries, or to other developing countries;

(g) that in the international trade negotiations the highest priority should be granted to the liberalization and elimination of quantitative and other restrictions which prevent or limit exports of processed and semi-processed products from developing countries. The Kennedy Round negotiations

/undoubtedly constitute

undoubtedly constitute an excellent opportunity for realizing the objectives established in the UNCTAD (Resolution A-III-6) and extending their results to the developing countries that are not members of GATT;

(h) that when a developed country has to apply import restrictions on products of special interest to the developing countries it should first consult the countries which might be affected and should eventually submit itself to assessment proceedings of the type suggested above.

(c) Preferential access in the developed countries for the developing countries' processed and semi-processed products

The measure for promoting the developing countries' exports of processed and semi-processed products which has deserved most attention and has aroused most controversy is that concerning the establishment by the developed countries of a system of general preferences in favour of these products. This was discussed at length in the first sessions of the UNCTAD without the different positions being reconciled, and Resolution A.III.5 recommended that a committee of governmental representatives should be set up "to consider the matter with a view to working out the best method of implementing such preferences on the basis of non-reciprocity from the developing countries, as well as to discuss further the differences of principle...."

In spite of the work which has been done, particularly by the special committee created for the purpose, and of substantial progress in the harmonization of the different positions of the different countries or groups of countries there is still far from being an agreement on the fundamental principles and mechanisms on which the preferential system would have to be based. It may, however, be mentioned that the developed countries are beginning to move, in the theoretical field, towards positions more favourable to preferences and other countries to accept the idea that they would constitute a viable system. Probably the most important step in this direction was the decision by the member countries of the Organization for Economic Co-operation and Development (OECD) to make in that organization

a study of the possible patterns for a preferential régime among the developed countries for the processed and semi-processed products of the developing countries, as well as other alternative formulas for promoting exports of these products. Although the text of the report on this matter prepared by a group of experts, which must have been considered in the Ministerial Meeting of the OECD in November 1966, is not officially known, the information available suggests that this report includes proposals which to a considerable extent agree with the positions held by the developing countries, and in particular with the draft proposals on the matter adopted by CECLA in its meeting at the expert level held at Mexico City in July 1966; moreover, in some aspects - e.g., respecting the operation of the safeguard clause mechanism - the proposals of the OECD study seem to provide more viable or practical alternatives than those adopted in the CECLA draft.

However, the OECD countries have still not made any pronouncement on these proposals, and in fact there continue to be considerable differences between the positions of these countries. Thus, some, in particular the United States and Japan, are still officially opposed to the granting of preferential treatment to the processed and semi-processed products of the relatively less developed countries; the Commission of the EEC, on the other hand, in a memorandum submitted to the Council of Ministers towards the end of 1966, pronounced in favour of a system of selective preferences, considering that an automatic system of preferences covering all products is not feasible and that consequently agreements on specific products should be sought on the basis of petitions made by the developing countries (this position corresponds in principle to the proposal submitted by the Belgian delegation in the first UNCTAD, known as the "Plan Brasseur", which was supported by France).*

* According to information given in Europe, 18 November 1966. However, from the description given in the European Communities Information Service bulletin for Latin America, Comunidad Europea, January 1967, it seems doubtful that what is here proposed is a system of selective preferences, at least in the sense of the Plan Brasseur.

Other developed countries, however, are in favour of a system of general preferences similar to that desired by the developing countries, viz., the proposal submitted to EFTA by Denmark, which was supported, among others, by the United Kingdom. Both the United Kingdom and the Federal Republic of Germany would, according to the statements of their representatives in the UNCTAD Committee on Manufactures, accept a system of general preferences in which all, or at least the main, industrialized countries and any developing countries interested would take part and which would be negotiated on the basis of a positive list of products, that might be supplemented by another list of products for which the developed countries would provide free access according to a quota or a specific percentage of their production or consumption.

The CECLA draft proposals on the general principles of a system of preferences in favour of the developing countries suggest that the negotiations should take place in two stages: the first for an agreement on the general principles of the system, and the second for the negotiation, once these principles had been established, of the operative mechanism for their practical application.

According to this draft the system must establish general, non-discriminatory preferences not requiring reciprocity on the part of the developing countries in favour of all processed and semi-processed products made in the developing countries, without limitation of volume or value except in the case of certain products considered to be "critical", for which tariff quotas negotiated by each of the developed countries with the whole group of developing countries would be established. Safeguard clauses, to be applied in cases of fully confirmed dislocation of markets, would also be included. Countries of relatively less economic development would be exempt from these limitations.

The principles on which the tariff quotas would be fixed would be negotiated between all the developing and developed countries together on the basis of a minimum initial percentage of the consumption of each product in each of the importing countries and of increasing shares in this consumption according to its future increases; these quotas would apply to all the developing countries together as would those established in cases of market dislocation.

/The preference

The preference would consist in the free access of processed and semi-processed products from the developing countries to the markets of the developed countries through the - in principle - total and immediate diminution of tariff and non-tariff restrictions for a limited period, which would be longer for the relatively less developed countries.

The preference granted by the countries of centrally planned economy would consist in the inclusion within their import programmes of progressively larger quotas for imports of processed and semi-processed products from the developing countries.

As has been mentioned above, the system would establish a body of special measures in favour of the countries of relatively less economic development, which would also enjoy preferential treatment granted in their favour by other developing countries in the framework of regional or sub-regional programmes of economic co-operation or integration.

Lastly, the system proposed in the CECLA draft should provide for a mechanism for periodic assessment of its operations, with a view to evaluating its effectiveness and the problems which arise in its application, and proposing any corrective or supplementary measures needed.

As regards what has been done in the UNCTAD, it should be mentioned that the Working Party on Preferences of the Committee on Manufactures has so far avoided any searching discussion of the principle of the preferences. The discussions of the Working Party, have basically been confined to certain particular aspects that would have to be taken into account if the principle was accepted. Thus, although the substance of the problem has not been attached, there has been an exchange of points of view on the goods which could be included in a preferential system, levels of preference margins, countries which would grant preferences, models for identical or different preferences according to countries, definition of beneficiary countries and of the special situation of the most backward countries within the category of developing countries, safeguard clauses, international supervision of the system, duration of the preferences, and relations of these with existing preferences.

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In the light of the discussions which have occurred in the UNCTAD, Working Party on Preferences and in the similar working party in GATT and of the changes which have taken place in the systems in force and in the positions or proposals maintained by countries or groups of countries, it seems vital that in the second UNCTAD the developing countries should make a concentrated effort to obtain definitions and concrete commitments for, at least, the following aspects:

- (1) acceptance of the actual principle of the general, non-discriminatory and non-reciprocal preference, and the scope that a general system which would enable the systems in force immediately or gradually to be eliminated must have;
- (2) establishment of a mechanism of negotiation that will enable the commitments that all or most of the developed countries are willing to assume in this connexion to be completed and made effective.^{15/} For this purpose it is essential that the main industrialized countries taking part in world trade should agree on the basic aspects of the problem;
- (3) identification of the bases on which later negotiations should be carried out. In the Conference itself a basic measure of agreement should be reached on: the determination of the products which can count as processed and semi-processed in order to include them in a system of preferences,^{16/} the definition of beneficiary countries and of specially favourable treatment for countries of relatively less economic development limits on the

^{15/} Among the developing countries there is manifest agreement on the question of preferences for processed and semi-processed products. On the other hand, certain differences of opinion can be found with regard to the elimination of the standing preferential systems for primary commodities and the formulas under which the countries benefiting from them are to be compensated for giving them up.

^{16/} In current statistics, for example, exports of refrigerated or frozen meat and fish, refined sugar, meat and fish meal, non-ferrous metals in bars and ingots, quebracho extract, etc. are counted as processed products. However, as regards their degree of processing and, in particular, the pattern of their trade in the international market (large and frequent fluctuations in prices and demand), they have the characteristics peculiar to primary commodities.

- use of escape clauses and of minimum preferential import quotas in cases in which accepted safeguard clauses are applied,^{17/} mechanism for assessing the fulfilment of the obligations assumed by the parties to the system, and a mechanism for settling problems of interpretation concerning the range of the exceptions or the scope and application of the safeguard clauses.^{18/} The basic measure of agreement would consist in the establishment, by agreement between the parties, of principles which would enable the competent bodies immediately to advance in the studies which, in order to implement the general commitments entered into, have been entrusted to them;
- (4) the opportunity provided by the second UNCTAD should also be used to analyse and discuss the problems and alternatives which might arise from a system of general, non-discriminatory preferences granted by the developed to the developing countries in order to promote the processed and semi-processed product exports of the latter, having regard to the existing vertical preferences, the formulas of compensation for the developing countries benefiting from them, the regional economic associations between developing and developed countries, and other problems which might be suggested by a preliminary examination of the bases to be negotiated or of those which would form part of the system.

^{17/} Even in cases where safeguard clauses can be applied - admitting the difficulty of ascertaining the proper fulfilment of commitments of this type from statistics - minimum import quotas should be fixed in terms of percentages of the domestic production, or, preferably, consumption levels of the importing countries.

^{18/} These difficulties are due to the fact that even in the industrialized countries there are no statistics for production in which it is classified at the level of the tariff items. It should in any case be the responsibility of the industrialized countries that invoke the safeguard clause to supply the statistical information needed to ascertain whether the imports concerned have exceeded the limits specified.

3. The financing of trade and development

(a) External-sector financial trends in the Latin American countries

It was pointed out in chapter I that in recent years the annual growth rate of Latin America's exports has outstripped that of its imports, and that this process has been stepped up since the first session of the United Nations Conference on Trade and Development. Consequently, since 1962 the trade-balance surplus has increased steadily, and faster than in previous years, although in 1966, to judge from the provisional data so far available, this upward trend seems to have come to a halt, as the favourable balance was lower than in the preceding year. (See table 11.)

These surpluses on the merchandise account have also helped to reduce the balance-of-payments deficit on current account, but the improvement in the region's position has had less impact on the growth of the capacity to import. This has been due, in the first place, to the heavy incidence of service payments (profits, amortization payments and interest on foreign loans and investment) on the Latin American countries' balance of payments in recent years, and, secondly, to a marked contraction in the net inflow of autonomous capital, as the following analysis shows.

In 1964-66, average annual income from exports of goods was 10,236 million dollars, whereas in the preceding three-year period (1961-63) it had been 8,605 million, so that a 19-per-cent increment was obtained. If gross income from services is also taken into account, the increase in total current income between the two periods is slightly larger (20 per cent). (See tables 11 and 12.) Net factor payments rose from 1,408 million dollars yearly to 1,892 million, i.e., by 34 per cent; interest payments on foreign loans showed the biggest increase (45 per cent), while returns on investment expanded by 31 per cent. Total payments under these heads absorbed 13 per cent of total current income in 1963, and 17 per cent in 1966. (See again table 12.)

In these circumstances, the proportion of current income represented by net external factor payments, which had been 14 per cent, climbed to 16 per cent in 1964-66. The increase in these net payments therefore amounted to one-fourth of the increment in current income from exports of goods and services. (See table 13.)

Table 11

LATIN AMERICA:^{a/} BALANCE ON MERCHANDISE ACCOUNT

(Millions of dollars)

Year or period	Exports (f.o.b.)	Imports (f.o.b.)	Trade balance
<u>Annual averages</u>			
1946-50	5 293.4	4 364.2	929.2
1951-55	7 091.4	6 067.9	1 023.5
1956-60	8 005.6	7 038.7	966.9
1961	8 160.2	7 316.1	844.1
1962	8 613.0	7 565.7	1 047.3
1963	9 042.8	7 263.0	1 779.8
1964	9 747.7	7 836.7	1 911.0
1965	10 171.6	8 062.8	2 108.8
1966 ^{b/}	10 789.8	8 776.6	2 013.2

Source: ECLA, on the basis of data from International Monetary Fund, Balance of Payments Yearbook.

a/ Unless otherwise stated, the following tables relate to Latin America excluding Cuba.

b/ Provisional data.

Table 12

LATIN AMERICA: RELATION BETWEEN EXPORT EARNINGS AND NET
EXTERNAL FACTOR PAYMENTS

(Millions of dollars)

Year or period	Exports of goods and services (A)	Net external factor payments (B)	(B) as a percentage of (A)
<u>Annual averages</u>			
1946-50	5 811.1	668.6	11.5
1951-55	7 961.6	914.7	11.5
1956-60	9 417.9	1 217.3	12.9
1961-63	10 135.1	1 408.5	13.9
1964-66 <u>a/</u>	12 140.7	1 892.6	15.6
1961	9 657.8	1 349.7	14.0
1962	10 109.0	1 453.3	14.4
1963	10 638.5	1 422.4	13.4
1964	11 471.6	1 658.6	14.5
1965	12 096.6	1 878.5	15.5
1966 <u>a/</u>	12 853.9	2 140.8	16.7

Source: ECLA, on the basis of International Monetary Fund, Balance of Payments Yearbook.

a/ Provisional data.

Table 13

LATIN AMERICA: VARIATIONS IN PERCENTAGES OF EXTERNAL
CURRENT INCOME REPRESENTED BY NET
EXTERNAL FACTOR PAYMENTS

(Millions of dollars)

Periods compared (annual averages)	Increase between periods		(B) as a percentage of (A)
	In external current income (A)	In net external factor payments (B)	
<u>1951-55</u> 1946-50	2 150.5	246.1	11.4
<u>1956-60</u> 1951-55	1 456.3	302.6	20.8
<u>1961-63</u> 1956-60	717.2	191.2	26.7
<u>1964-66</u> 1961-63	2 005.6	484.1	24.1

Source: Table 12.

/Moreover, in

Moreover, in 1961-65 ^{19/} net inflows of autonomous capital weakened considerably, and despite the high figures registered in 1964, the average for the five-year period was lower than in 1965-60. (See table 14.) To judge from partial data for the year 1966, there seems to have been a further reduction in relation to 1965.

Owing to the combined effects of the increase in external factor payments and the contraction in the net inflow of autonomous capital, plus the need to pay off suppliers' credits in the case of countries that had fallen heavily into arrears in this respect, or to amortize balance-of-payments loans obtained in the past, the growth of the capacity to import goods in 1961-65 was not commensurate with that of exports of goods (9 per cent as against 14 per cent). (See tables 15 and 16.) According to estimates, imports expanded at a higher rate than exports in 1966, a development which was bound to be reflected in increased use of compensatory financing or in a reduction of monetary reserves.^{20/}

The outcome of the process described was that imports of goods averaged 7,381 million dollars in 1961-63 and 8,225 million in 1964-66, thus rising by only 11 per cent. (See table 17.)

As the result of a sharp upswing in service payments in the later years of the period, which further aggravated the deficit on these transactions (see table 18), total expenditure on goods and services was 13 per cent higher in 1964-66 than in 1961-63, the annual averages for the two periods having been 10,954 million dollars and 9,649 million dollars, respectively.

Thus, the proportion of its export earnings that Latin America was able to use for financing imports can be seen to have followed a steadily declining trend in 1964-66, whether the merchandise account alone is considered, or figures for service transactions are also included in the analysis. (See table 19.)

^{19/} The year 1966 is not taken into account in the comparisons, as the relevant data were not yet available when the present study was prepared.

^{20/} The region's gold and foreign exchange reserves dropped by about 400 million dollars in 1966.

Table 14

LATIN AMERICA: NET AUTONOMOUS CAPITAL MOVEMENTS

(Millions of dollars)

Year or period	Net direct investment a/	Net long-term loans			Official transfer payments (donations)	Other movements	Total
		To private sector	To public sector	Total			
<u>Annual averages</u>							
1946-50	329.2	-5.6	-218.1	-223.7	21.0	-6.8	119.7
1951-55	325.3	48.2	45.1	93.3	29.2	63.9	511.7
1956-60	853.3	183.4	148.3	331.7	98.8	5.1	1 288.9
1961-65	316.0	156.7	601.5	758.2	141.4	-167.0	1 048.6
1961	370.2	374.0	459.5	833.5	129.3	-354.8	978.2
1962	211.2	286.4	480.9	767.3	127.3	-238.4	867.4
1963	217.1	12.7	733.6	746.3	128.5	-331.5	760.4
1964	374.7	90.2	792.2	882.4	136.7	190.8	1 584.6
1965	407.1	20.1	541.3	561.4	185.0	-101.3	1 052.2

Source: ECLA, on the basis of International Monetary Fund, Balance of Payments Yearbook.

a/ Including reinvestment.

Table 15

LATIN AMERICA: FINANCING OF BALANCE ON CURRENT ACCOUNT

(Millions of dollars)

Year or period	Net autonomous capital movements	Trade debts and balance- of-payments loans (minus sign denotes net figure)	Monetary authorities' net reserves (minus sign denotes increase)	Errors and omissions	Total
<u>Annual averages</u>					
1946-50	119.7	15.8	116.4	-39.5	212.4
1951-55	511.7	131.2	63.0	-88.4	617.5
1956-60	1 288.9	158.8	52.2	-438.5	1 061.4
1961-65	1 048.6	42.0	-130.1	-171.8	788.7
1961	978.2	171.2	157.3	-78.2	1 228.5
1962	867.4	43.2	600.4	-310.5	1 200.5
1963	760.4	-52.8	-345.6	-21.4	340.6
1964	1 584.6	-105.6	-243.9	-568.1	667.0
1965	1 052.2	154.1	-818.8	119.2	506.7

Source: ECLA, on the basis of International Monetary Fund, Balance of Payments Yearbook.

Table 16
LATIN AMERICA: CAPACITY TO IMPORT
(Millions of dollars)

Year or period	Exports of goods (f.o.b.)	Balance on services account	Net factor payments	Net autonomous capital movements	Amortization of trade arrears and balance-of-payments loans (gross)	Errors and omissions	Total	Imports of goods (f.o.b.)	Balance ^{a/}
<u>Annual average</u>									
1946-50	5 293.4	-473.0	-668.6	119.7	-44.2	-39.5	4 187.8	-4 364.2	-176.4
1951-55	7 091.4	-726.3	-914.7	511.7	-127.1	-88.4	5 746.6	-6 067.9	-321.3
1956-60	8 005.6	-811.0	-1 217.3	1 288.9	-172.3	-438.5	6 655.4	-7 038.7	-383.3
1961-65	9 147.1	-774.4	-1 552.5	1 048.6	-450.0	-171.8	7 247.0	-7 608.9	-361.9
1961	8 160.2	-722.9	-1 349.7	978.2	-238.5	-78.2	6 749.1	-7 316.1	-567.0
1962	8 613	-794.5	-1 453.3	867.4	-397.4	-310.5	6 524.7	-7 565.7	-1 041.0
1963	9 042.8	-698.0	-1 422.4	760.4	-609.5	-21.4	7 051.9	-7 263.0	-211.1
1964	9 747.7	-919.4	-1 658.6	1 584.6	-602.9	-568.1	7 583.3	-7 836.7	-253.4
1965	10 171.6	-737.0	-1 878.5	1 052.2	-401.8	119.2	8 325.7	-8 062.8	262.9
Percentage increase	$\frac{1961-65}{1956-60}$		14.3%				8.9%	8.1%	

Source: Based on data given in earlier tables.

^{a/} This balance is equivalent to the sum of gross credit entries under trade arrears and balance-of-payments loans plus net variations in the monetary authorities' reserves.

Table 17

LATIN AMERICA: BALANCE OF PAYMENTS ON CURRENT ACCOUNT

(Millions of dollars at current prices)

Year or period	Exports			Imports			Net factor payments			Balance on current account
	Goods (f.o.b.) a/	Services	Total	Goods (f.o.b.)	Services b/	Total	Returns on investment	Interest on loans, etc.	Total	
<u>Annual averages</u>										
1946-50	5 293.4	517.7	5 811.1	-4 364.2	-990.7	-5 354.9	-626.3	-42.3	-668.6	-212.4
1951-55	7 091.4	870.2	7 961.6	-6 067.9	-1 596.5	-7 664.4	-830.2	-84.5	-914.7	-617.5
1956-60	8 005.6	1 412.3	9 417.9	-7 038.7	-2 223.3	-9 262.0	-1 040.3	-177.0	-1 217.3	-1 061.4
1961-63	8 605.3	1 529.8	10 135.1	-7 381.6	-2 268.2	-9 649.8	-1 071.2	-337.3	-1 408.5	-923.2
1964-66 c/	10 236.4	1 904.3	12 140.7	-8 225.4	-2 729.0	-10 954.4	-1 403.4	-489.2	-1 892.6	-706.3
1961	8 160.2	1 497.6	9 657.8	-7 316.1	-2 220.5	-9 536.6	-1 019.7	-330.0	-1 349.7	-1 228.5
1962	8 613.0	1 496.0	10 109.0	-7 565.7	-2 290.5	-9 856.2	-1 105.3	-348.0	-1 453.3	-1 200.5
1963	9 042.8	1 595.7	10 638.5	-7 263.0	-2 293.7	-9 556.7	-1 088.6	-333.8	-1 422.4	-340.6
1964	9 747.7	1 723.9	11 471.6	-7 836.7	-2 643.3	-10 480.0	-1 245.5	-413.1	-1 658.6	-667.0
1965	10 171.6	1 925.0	12 096.6	-8 062.8	-2 662.0	-10 724.8	-1 397.2	-481.3	-1 878.5	-506.7
1966 a/	10 789.8	2 064.1	12 853.9	-8 776.6	-2 881.8	-11 658.4	-1 567.6	-573.2	-2 140.8	-945.3
Percentage increase 1964-66 1961-63 %	19.0	24.5	19.8	11.4	20.3	13.5	31.0	45.0	34.3	-23.5

Source: ECLA, on the basis of International Monetary Fund, Balance of Payments Yearbook.

a/ Including net movements of non-monetary gold.

b/ Including private transfer payments (donations).

c/ Provisional data.

Table 18

LATIN AMERICA: TOTAL TRANSACTIONS ON SERVICES ACCOUNT

(Millions of dollars)

Year or period	Credit	Debit	Balance
<u>Annual averages</u>			
1946-50	517.7	990.7	-473.0
1951-55	870.2	1 596.5	-726.3
1956-60	1 412.3	2 223.3	-811.0
1961-63	1 529.8	2 268.2	-738.4
1965-66 ^{a/}	1 904.3	2 729.0	-824.7
1961	1 497.6	2 220.5	-722.9
1962	1 496.0	2 290.5	-794.5
1963	1 595.7	2 293.7	-698.0
1964	1 723.9	2 643.3	-919.4
1965	1 925.0	2 662.0	-737.0
1966 ^{a/}	2 064.1	2 881.8	-817.7

Source: International Monetary Fund, Balance of Payments Yearbook.

^{a/} Provisional data.

Table 19

LATIN AMERICA: RELATION BETWEEN IMPORTS AND EXPORTS
OF GOODS AND OF GOODS AND SERVICES

(Percentages)

Year or period	Relation between exports and imports of goods	Relation between exports and imports of goods and services
<u>Annual averages</u>		
1946-50	82.4	92.1
1951-55	85.6	96.3
1956-60	87.9	98.3
1961-63	85.8	95.2
1964-66 <u>a/</u>	80.4	90.2
1961	89.7	98.7
1962	87.8	97.5
1963	80.3	89.8
1964	80.4	91.4
1965	79.3	88.7
1966 <u>a/</u>	81.3	90.7

Source: Based on data given in earlier tables.

a/ Provisional data.

/Again, table

Again, table 20 shows that whereas during the fifties, Latin America's imports of goods had expanded at almost exactly the same rate as its exports, in the sixties their share in the region's additional export earnings dwindled until in 1964-66 it averaged only about 50 per cent, rising to 65 per cent if services are taken into account as well.

The relation between net external factor payments and net autonomous capital movements, in respect of the region as a whole, can be seen in table 16 above. In the ten years following the end of the Second World War, the net inflow of autonomous capital into Latin America was insignificant in volume, partly because of the purchase of foreign assets established in the region, and partly on account of the internal requirements of the traditionally capital-exporting countries themselves. But from the mid-fifties onwards, net outflows to the developing countries increased considerably, mainly by virtue of heavy gross investment in 1956 and 1957, much of which went into Venezuelan petroleum.

Partly in consequence of the purchase of foreign capital assets and the settlement of debts previously contracted, Latin America's external factor payments and inflows of autonomous capital showed a negative balance of approximately 5,000 million dollars for the period 1946-55. In 1956-60, substantial as was the increase in autonomous capital inflows, it was virtually cancelled out by the expansion of factor payments, since the surplus that remained was only a little over 350 million dollars. In 1961-65, the steadily rising trend of external factor payments brought them up to an aggregate sum of 7,762 million dollars, as against autonomous capital inflows amounting to 5,243 million, so that the resulting deficit was 2,500 million dollars.

Hence, for Latin America as a whole, the net movement of external resources, after deduction of amortization and interest payments plus profits and dividends on foreign investment from autonomous capital inflows, showed a debit balance, and additional income from exports or other sources was needed to compensate this outflow.

Table 20

LATIN AMERICA: VARIATIONS IN PERCENTAGES OF EXTERNAL CURRENT
INCOME REPRESENTED BY IMPORTS OF GOODS AND TOTAL
EXPENDITURE ON IMPORTS OF GOODS AND SERVICES

(Millions of dollars)

Periods compared (annual averages)	Increase in current income from exports		Increase in current expenditure on imports		Percentage	
	Goods f.o.b.	Total goods and services	Goods f.o.b.	Total goods and services	(C) (A)	(D) (B)
	(A)	(B)	(C)	(D)		
<u>1951-55</u> 1946-50	1 798.0	2 150.5	1 703.7	2 309.5	94.8	107.4
<u>1956-60</u> 1951-55	914.2	1 456.3	970.8	1 597.6	106.2	109.7
<u>1961-63</u> 1956-60	599.7	717.2	342.9	387.8	57.2	54.1
<u>1964-66</u> 1961-63	1 631.1	2 005.6	843.8	1 304.6	51.7	65.0

Source: Table 19.

/The sustained

The sustained growth of external factor payments was the logical consequence of the direct investment and accrued debt position. Despite the effort expended by some of the Latin American countries in the later years of the period under review, the external debt continued to snowball and its structure deteriorated in respect of amortization periods and certain interest rates.

It is no easy matter to determine the real status of the Latin American countries' external debt. As a result of operational difficulties or problems relating to the compilation of statistics, there are marked discrepancies between estimates severally formulated by responsible agencies.

According to table 21, which presents data taken from various studies prepared by the International Bank for Reconstruction and Development (IBRD), in 1961-65 the public debt of the Latin American countries (excluding Cuba and Haiti), plus the officially-guaranteed private debt - the only form of private borrowing on which the Bank compiles statistics - rose from 6,573 million dollars to about 11,900 million, i.e., at a cumulative average annual rate of 12.6 per cent. With the exclusion of Venezuela, whose transactions follow a special pattern of their own, in the rest of the region external factor payments also represented increasingly high percentages of the net inflow of capital, despite the significant expansion of the latter in recent years. Thus, while in 1951-55 net factor payments absorbed 56 per cent of the net inflow of autonomous capital from abroad, this proportion rose steadily throughout the three-year period 1961-63; it decreased in 1964, because the inflow of capital in that year was unusually large, but in 1965 net factor payments exceeded net autonomous capital inflows.

/Table 21

Table 21

LATIN AMERICA: PUBLIC AND OFFICIALLY-GUARANTEED PRIVATE DEBTS, 1961-66^{a/}

(Million of dollars)

	1961	1962	1963	1964	1965	1966
Balance at beginning of year	6 573	7 615	8 913	9 700	10 600	11 900
Increase during year	1 042	1 298	787	900	1 300	...
Balance at end of year	7 615	8 913	9 700	10 600	11 900	...

Sources: For 1961-62, ECLA, on the basis of UNCTAD, Economic growth and external debt, a statistical presentation (E/Conf.46/40), table 5; for 1963-64, ECLA, estimates based on IBRD, Annual report 1964-65; for 1965, IBRD, Annual report 1965-66, table 4, p. 33.

^{a/} Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

/In a

In a study published by the Inter-American Development Bank (IDB),^{21/} Latin America's external debt as at 31 December 1964 was calculated to be 11,052 million dollars (a figure 4 per cent higher than the IBRD estimate). According to estimates for eight countries whose public and officially-guaranteed private indebtedness accounted for 90 per cent of the total, the sum of their short-term public debts (less than one year), plus their IMF positions, plus private external indebtedness without guarantee, totalled 3,518 million dollars at the close of 1964. This computation takes into account neither the short-term indebtedness of Argentina, Mexico and Venezuela, nor swaps, nor other countries' internal debts payable in foreign currency,^{22/} which may be estimated as representing, in the aggregate, another 1,000 million dollars. In all, therefore, the debt not covered by the IBRD statistics is equivalent to 40 per cent of that computed. If this percentage relation is assumed to have remained constant, Latin America's indebtedness at the end of 1965 must have amounted to not less than 16,600 million dollars. So impressive a volume of cumulative external borrowing on the part of the Latin American countries, on extremely burdensome terms as regards amortization periods and rates of interest, meant that the increase in the amount of foreign exchange required to cover service payments was so great that, as has been shown, it more than offset the inflow of autonomous capital.

As pointed out in a United Nations study,^{23/} "the magnitude of this debt has implications both for trade and for the flow of international capital. On the one hand it imposes a payments rigidity which greatly magnifies the difficulties occasioned by any failure of the export earnings of a developing country to grow at an adequate rate. On the other hand it confronts lending countries with the need to re-examine the terms on which loans are currently being made; the higher the interest rate and the shorter the tenor the more difficulties it is

^{21/} Inter-American Development Bank (IDB), European financing of Latin America's economic development, table I-9, p.13.

^{22/} Ibidem, table I-14, p.21.

^{23/} International Flow of Long-term Capital and Official Donations, 1961-65, United Nations publication, Sales N°: 66.II.D.3, pp.45-46.

likely to raise not only for the borrowing country but also for the creditor countries as a group. There is a strong common interest in a realistic reappraisal of the terms on which resources are made available to the developing countries".

In recent years the Latin American countries have made considerable efforts to augment their gold and foreign exchange holdings.

In 1962 the region's gold and foreign exchange reserves had sunk to their lowest post-war level. Thanks to an improvement in world market prices for Latin America's main exports, and a tenacious effort to produce larger exportable surpluses, the reserves in question increased in three successive years until by 1965 they had climbed to 3,315 million dollars; but in 1966 they were reduced by 400 million dollars, and thus stood only about 170 million dollars higher than at the end of 1960, when the Development Decade began. (See table 22.)

The fact that in the same five-year period the industrialized countries and the other developing countries (according to the International Monetary Fund classification) increased their reserves by about 6,440 and 1,030 million dollars, respectively, indicates an uninterrupted deterioration of Latin America's relative position in the world economic picture.

The low level of the region's monetary reserves and the rigidity and magnitude of its external debt service payments will severely cramp its chances of speeding up its rate of development, unless the immediate future witnesses a considerable change in the terms on which external financing is offered to the developing countries, or a radical reorientation of international policies and trade.^{24/}

^{24/} The President of the International Bank for Reconstruction and Development (IBRD) stated in a recent article: "A good part of the countries' foreign-exchange resources must be devoted to servicing previous obligations rather than to new productive development ... More finance is needed, and on terms more appropriate to the facts of life in the under-developed countries ... To go on doing what the capital-exporting countries are now doing will, in the not too long run, amount to doing nothing at all". (See George D. Woods, "The Development Decade in the Balance", Foreign Affairs, January 1966.)

Table 22

GOLD AND FOREIGN EXCHANGE HOLDINGS, BY MAJOR GROUPS OF COUNTRIES

(Millions of dollars)

Year	Latin American countries a/	Other developing countries b/	Industrialized countries b/
1950	2 757	6 475	37 400
1953	2 853	6 960	39 590
1957	3 434	6 325	44 130
1960	2 746	6 700	47 560
1961	2 610	6 255	49 655
1962	2 195	6 430	50 635
1963	2 680	6 860	52 970
1964	2 820	6 785	55 000
1965	3 315	7 485	54 000
1966 c/	2 914	7 730	54 000

Source: International Monetary Fund, International Financial Statistics, supplement to 1963/64, 1966/67.

a/ Excluding Cuba and including Jamaica.

b/ According to the International Monetary Fund classification.

c/ Estimated on the basis of International Monetary Fund, International Financial Statistics, March 1967.

A number of technical studies carried out in recent years reveal a serious widening of the gap between the foreign exchange resources and requirements of the developing countries in general and the Latin American countries in particular.^{25/}

This research leads to the conclusion that even a slight improvement in the rate of economic growth will call for a substantial increase in net transfers of funds to the developing countries, and an expansion and diversification of exports which will be very hard to achieve, given the prevailing conditions in respect of international trade and economic policy. Financial problems also arise that will demand immediate attention. Service payments on external investment and loans tend to increase much faster than exports, and will constitute an even heavier drag on the growth of the capacity to import than in the last few years. This will frustrate the efforts made in some of the Latin American countries to generate the necessary expansion of their export trade, which have had powerful repercussions, owing to the nature of the measures that have been adopted in some instances to encourage exports and restrict imports, and thus enable the countries concerned to meet their service commitments (amortization and interest payments on external loans and profits and dividends on foreign investment).

In a recent IBRD study,^{26/} attention is drawn to the magnitude of the disbursements which the Latin American countries will have to make in the next few years under the head of amortization and interest payments on the public debt and the officially-guaranteed private debt. When other short-term debts, private indebtedness without guarantee, and dividends and profits payable are also taken into account, the resulting

^{25/} See F. Gerard Adams, Alternative Projections of the Foreign Exchange "Gap": A Reconciliation, a study (ID/B/C.3/30), prepared at the request of the secretariat of the United Nations Conference on Trade and Development (UNCTAD).

^{26/} IBRD, External medium- and long-term public debt. Past and projected amounts: outstanding transactions and payments 1956-75, October 1966. It should be noted that the Bank does not assume responsibility for the accuracy and coverage of the statistics quoted in the study.

total shows that the necessary corrective measures must be adopted without delay. Otherwise, the Latin American countries will be unable to satisfy their growing requirements in respect of capital goods for the promotion of economic development and essential raw materials and intermediate products for the maintenance of the rate of internal activity. Not only will the endeavour to improve the rate of economic growth have been in vain, but the mere task of keeping up existing levels of economic activity will be beset with difficulties in many of the Latin American countries.

(b) International financing policies and flows

At the Twenty-first Annual Meeting of the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development, Mr. Pierre-Paul Schweitzer, Managing Director of the Fund, made the following statement:^{27/} "Preoccupied with their domestic problems of pursuing economic growth, combating inflationary pressures, and protecting payments or reserve positions, the industrialized countries as a group have not expanded their various forms of assistance to developing countries ... High growth in industrial countries might be expected to facilitate the flow of resources to the developing world. But, in spite of increased efforts by some countries, foreign aid in the aggregate has stagnated since the beginning of this decade. Its terms have hardened in the sense that the proportion of assistance in the form of grants has fallen and that of tied aid has risen". A similar view was expressed by the President of IBRD, who said on the same occasion: "Given the record of achievement in the developing world and given the remarkable and continuing rise of prosperity in most of the industrialized countries, it might be supposed that the curve of development assistance would, in fact, be rising. But as is well known, assistance from public sources is not increasing; as a proportion of the income of the industrialized countries, it has continued to decline for the fifth successive year".

^{27/} Address delivered on 26 September 1966.

Such pessimistic pronouncements at the highest level of international financing were grounded on the evolution of the assistance provided by the industrialized countries, which, far from attaining the objectives established for the Development Decade, displays - midway through the period - the following characteristics:

A virtual stagnation of the total amount of aid;

A decrease in assistance as a proportion of the income of the developed countries;

A reduction of the proportion of assistance extended in the form of grants and "soft" credits;

An increase in the proportion of "tied" credits;

Higher interest rates;

Shorter average maturity periods.

Table 23 shows disbursements made over the period 1961-65 by the countries members of the Development Assistance Committee (DAC).^{28/} It does not take into account interest payments on official loans, which have been estimated by DAC ^{29/} as follows:

<u>Year</u>	<u>Millions of dollars</u>
1961	...
1962	294.1
1963	316.0
1964	421.4
1965	457.8

If these sums are deducted from official disbursements, it will be seen that the net flow of resources in 1965 was larger than in 1964, but almost the same as in 1961-63.

^{28/} The member countries are Austria, Belgium, Canada, Denmark, Federal Republic of Western Germany, France, Italy, Japan, Norway, Portugal, Sweden, United Kingdom and United States.

^{29/} OECD, Development Assistance Efforts and Policies, 1966 Review, p.151.

Table 23

COUNTRIES MEMBERS OF THE DEVELOPMENT ASSISTANCE COMMITTEE (DAC):
NET OFFICIAL AND PRIVATE DISBURSEMENTS (BILATERAL
AND MULTILATERAL), 1961-65

(Millions of dollars)

	1961	1962	1963	1964	1965
<u>Official disbursements</u>					
Grants and grant-like contributions	3 947.7	4 099.7	4 039.7	3 836.5	3 798.0
Long-term loans, net	1 343.9	1 323.6	1 672.6	1 604.3	1 975.1
<u>Total bilateral disbursements</u>	<u>5 291.7</u>	<u>5 423.3</u>	<u>5 712.3</u>	<u>5 440.8</u>	<u>5 773.1</u>
Operations with multilateral agencies, net	842.2	690.5	411.2	440.7	497.6
<u>Total official disbursements</u>	<u>6 133.9</u>	<u>6 113.8</u>	<u>6 123.5</u>	<u>5 881.5</u>	<u>6 270.7</u>
<u>Private disbursements</u>					
Investment and loans, net	2 592.7	1 820.5	1 837.6	2 318.2	3 138.1
Export credits	493.1	629.6	552.3	881.2	740.7
<u>Total private disbursements</u>	<u>3 085.8</u>	<u>2 450.1</u>	<u>2 389.9</u>	<u>3 199.5</u>	<u>3 878.8</u>
<u>Total official and private disbursements</u>	<u>9 219.7</u>	<u>8 563.9</u>	<u>8 513.4</u>	<u>9 081.0</u>	<u>10 149.5</u>

Source: For 1961, OECD, The flow of financial resources to less developed countries, 1956-63, table IV-1, pp. 128 and 129; for 1962-65, OECD, Development Assistance Efforts and Policies, 1966 Review, table 4, pp. 150 and 151.

/The percentages

The percentages of the gross product of the DAC countries represented by official disbursements (without deduction of interest received) varied as follows:^{30/}

<u>Year</u>	<u>Percentage of gross product</u>
1961	0.83
1962	0.74
1963	0.70
1964	0.62
1965	0.61

Table 23 also gives data on disbursements from private sources in the countries members of DAC, but there is no statistical basis for an evaluation of the flow of dividends, profits and interest on such operations, which amount to substantial sums, and may largely offset movements of capital into the developing countries. Nor were export credits computed, since they are excluded from the definition of net financial resources in the Final Act and Report of the first session of UNCTAD.^{31/}

The inference to be drawn from the overall figures published by DAC is that Latin America's share in total flows of official donations, public and private credits and operations with multilateral agencies gradually declined.^{32/} It was 14.4 per cent in each of the years 1961 and 1962, 15.9 per cent in 1963 and 13.5 per cent in 1964.

A point worth noting is that in 1965 the figures for financial assistance commitments to developing countries dropped sharply. (See table 24.)

From a qualitative standpoint, Latin America is at a still greater disadvantage vis-à-vis the other developing countries, since most of the United States' sales on grant-like terms are made to Asian countries, and France's grants and grant-like operations largely benefit its former colonies in Africa; whereas a very high proportion of transfers tied to export credits falls to the share of the Latin American countries.

^{30/} Ibid., p. 51. There are certain differences between the methods of calculation applied by DAC and by other sources (see International Flow of Long-term Capital and Official Donations, 1961-65, op.cit., with special reference to table 2, footnote b/, p.7).

^{31/} See UNCTAD, Final Act and Report, Annex A.IV.2, paragraph 4, footnote 54, p.44.

^{32/} See OECD, 1966 Review, op.cit., table 7 pp. 156-157.

Table 24

COMMITMENTS OF ECONOMIC ASSISTANCE TO DEVELOPING COUNTRIES, 1961-65

(Millions of dollars)

	1961	1962	1963	1964	1965
<u>Countries members of the Development Assistance Committee (DAC)</u>					
<u>Bilateral</u>					
Grants and grant-like loans	...	4 554.9	3 765.6	4 635.9	3 630.5
Long-term operations, net	...	2 711.8	2 808.8	3 640.8	3 021.7
<u>Total bilateral commitments</u>	<u>6 639.0</u>	<u>7 266.7</u>	<u>6 574.4</u>	<u>8 276.6</u>	<u>6 652.2</u>
Multilateral	...	440.9	309.2	598.6	914.2
<u>Total DAC countries</u>	...	<u>7 707.6</u>	<u>6 883.6</u>	<u>8 875.2</u>	<u>7 566.2</u>
<u>Countries with centrally-planned economies</u>					
Bilateral	1 005.0	316.0	941.0	1 246.0	685.0

Sources: For DAC countries, 1966 Review, op.cit., tables 4 and 8, pp. 150-151, and 158; for countries with centrally-planned economies, World Economic Survey 1965, Part 1, United Nations publication, Sales No.: 66.II.G.1, table IV-1, p. 99, and International Flow of Long-term Capital and Official Donations, 1961-65, op.cit., table 8, pp. 22-23.

/No complete

No complete statistics are available for accurate quantification of the flow of resources from the centrally-planned economies to the developing countries. The bilateral commitments of the economies in question, to judge from the data to hand, fluctuated widely, dipping from 1,000 million dollars in 1961 to one-third of that sum in each of the years 1962 and 1963, rising again to 1,246 million in 1964, and dropping to a little over half that amount in 1965. In the five-year period as a whole, only 10 per cent of the commitments were pledged to Latin America.

The commitments described fall far short of the target established in the Final Act and Report of UNCTAD (annex A.IV.2, paragraph 4), i.e., that the financial resources supplied to the developing countries should represent one per cent of each economically advanced country's national income. (See table 25.)

The terms on which financing could be obtained from the DAC countries showed distinct signs of hardening in 1965. (See table 26.)

Generally speaking, the centrally-planned economies grant export credits at rates of interest ranging from 2.5 to 3.0 per cent of the debit balances, and for periods of 8 to 15 years, with a one-year grace period, reckoned from the date of delivery of the machinery and equipment or from the date of completion of the project. Repayment is usually effected through sales of the buyers country's traditional export products, by means of the opening of an account in local currency, with a gold guarantee to cover devaluation risks.

The export credits granted by the market economies have increased in recent years on such a scale that their servicing accounts for two-thirds of the developing countries' total service payments. There are serious objections to this type of financing. In the first place, the credits are extended on a medium-term basis, and their servicing aggravates balance-of-payments problems; secondly, costs are very heavy, owing to the interest rates, insurance and other commissions charged; and, thirdly, the tying of the use of these credits to specific sources of supply means that higher prices are paid for the goods purchased. For example, it has been estimated that "the tying of

Table 25

**CENTRALLY-PLANNED ECONOMIES: ACTUAL COMMITMENTS, AND HYPOTHETICAL
COMMITMENTS OF ONE PER CENT OF GROSS NATIONAL PRODUCT, 1960-64**

(Millions of dollars)

Country	Actual commitments	Estimated one per cent of gross national product	Exports to developing countries
Bulgaria	26	293	196
Czechoslovakia	400	818	1 159
Eastern Germany	144	1 143	409
Hungary	170	350	291
Poland	336	1 043	660
Romania	170	554	255
URSS	1 951	11 263	3 745
<u>Total</u>	<u>3 197</u>	<u>15 403</u>	<u>6 655</u>
China (mainland)	603		2 322

Source: United Nations, World Economic Survey 1965, Part 1, op.cit., table IV-8, p. 107.

Table 26

DAC COUNTRIES: AVERAGE FINANCIAL TERMS OF OFFICIAL BILATERAL LOAN COMMITMENTS, 1962-65

Year	Weighted average maturity periods (years)	Weighted average interest rates (percentages)
1962	23.6	3.6 a/
1963	24.8	3.4 a/
1964	28.4	3.0
1965	22.2	3.6

Source: OECD, 1966 Review, op.cit., table 10, p. 160.

a/ Based on incomplete data.

/aid may

aid may increase costs by from 20 to 40 per cent, and in extreme instances may even result in price differentials ranging as high as 100 per cent or more".^{33/}

It is pointed out in a recent United Nations study ^{34/} that "since the late nineteen fifties, a gradually increasing number of export credits have been insured and granted on terms and for purposes which have tended to blur the distinction between trade and aid. As a result of this trend, the annual gross flow of new guaranteed export credits exceeding five years, as reported to the Berne Union, rose rapidly from the equivalent of 78 million dollars in 1960 to 709 million in 1963. The resulting complex situation has led to growing concern regarding both the increasing external debt burden of the developing countries and the possibility of trade distortion.

"... Even the extended export credit maturities (averaging eight years, though in some cases much longer) still fall far short of those of genuine development credits, and are not usually based on a realistic evaluation of the importing country's ability to pay. In fact, these maturities often fail to accord with the equipment's appropriate amortization (pay-back) period in the developing country, or indeed with the project's chances to 'yield an economic return at all'. Consequently, the lengthening of export credit maturities beyond the five-year limit has not, in most cases, significantly eased the developing countries' overall external debt burden. Furthermore, in those instances where the burden has been eased, the alleviation has induced a number of these countries to accept a rapid increase in their total export-credit-financed imports.

^{33/} See UNCTAD, The terms, quality and effectiveness of financial flows and problems of debt servicing, TD/B/C.3/35, p.16.

³⁴ United Nations Department of Economic and Social Affairs, Export Credits and Development Financing. Part One: Current Practices and Problems (E/4274:ST/ECA/95), p.7.

"For many developing countries, the indebtedness problem has reached a point where there is a serious question as to whether they will be able to continue servicing their existing debts and whether they will be able to secure - or reasonably to accept - additional external financing through the export credit route for the acquisition of equipment needed for new projects."

The proportion of official bilateral loans from the DAC countries represented by export credits actually used, calculated as a weighted average for the five-year period 1961-65, was 44 per cent. (See table 27.)

The significance of this high percentage is enhanced if account is taken of the final cost to the supplier, which includes bank interest rates and insurance policies, and the burden of which is of course transferred to the purchaser. Average costs for various DAC countries are listed in table 28.

In the Latin American countries' transactions with multilateral agencies, a notable part has been played by the Inter-American Development Bank (IDB), whose activities have been gradually expanding since it entered operation in 1961. The loans that its various Funds have been authorized to issue now total nearly 2,000 million dollars. Most of the disbursements actually effected so far have been made by the Special Operations Fund and the Social Progress Trust Fund (the latter under United States Government management) whose terms in respect of maturities and interest rates are extremely favourable to borrowers. (See table 29.) Since the first session of UNCTAD, IDB's net loans to the Latin American countries have amounted to a total of 675 million dollars.

Loans to the Latin American countries authorized by the International Bank for Reconstruction and Development (IDB) represent in toto nearly 2,000 million dollars, of which approximately 600 million correspond to the fiscal years from the first UNCTAD session to 1966. Virtually no change has taken place in the shares of the various groups of countries (the industrialized countries in the aggregate, and the Latin American region, each absorbed about 30 per cent of the Bank's total authorized loans, while 40 per cent went to the group of developing countries formed by those of

Table 27

DAC COUNTRIES: NET INCREASE IN PUBLIC DEBT AND PUBLICLY GUARANTEED
EXPORT CREDITS EXTENDED TO DEVELOPING COUNTRIES, 1961-65

(Millions of dollars)

Year	Net official bilateral loans (A)	Export credits			Percentage of $\frac{(D)}{(A)}$
		From 1 to 5 years (B)	Over 5 years (C)	Total (D=B+C)	
1961	1 244	268	368	636	51.1
1962	1 324	235	395	630	47.6
1963	1 673	259	293	552	33.0
1964	1 604	349	533	882	55.0
1965	1 975	284	456	740	37.5
<u>Total 1961-65</u>	<u>7 820</u>	<u>1 395</u>	<u>2 045</u>	<u>3 440</u>	<u>44.0</u>

Source: ECLA, on the basis of OECD, 1966 Review, op.cit., table VIII, p. 100.

Table 28

DAC COUNTRIES: AVERAGE COST OF FINANCING EXPORT CREDITS AT THE END OF JUNE 1966

(Percentages)

Country	Medium-term credits	Long-term credits
Austria	6.5	7.25 and 5.5 ^{a/}
Belgium	6.25	6.5
Canada	6	6
Denmark	8	8
France	6-7	5.7
Germany (Federal Republic)	4.5-6	8
Italy	5.9	5.9
Japan	6 ^{b/}	6 ^{b/}
Sweden	8	5.75-8
United Kingdom	5.5 or 7.5-8.5 ^{a/}	5.5 ^{d/}
United States	6-7	6-7

Source: United Nations Department of Economic and Social Affairs, Export Credits and Development Financing, Part One: Current Practices and Problems (E/427:ST/ECN/95), table 1, p. 11.

- ^{a/} The 5.5 per cent rate applies only to transactions with developing countries, and includes the insurance premium.
- ^{b/} The Export-Import Bank of Japan participates in joint financing with the commercial banks, and charges rates of interest between 4 and 7 per cent, while the commercial banks apply rates of between 8.5 and 9.0 per cent on their portion of loans, giving a weighted average of about 6 per cent.
- ^{c/} Prior to 1962 the rate was one per cent above the bank rate with a minimum of 5 per cent; in January 1962 the London clearing banks and the Scottish banks agreed to finance medium-term export credits backed by a bank guarantee at a rate of 5.5 per cent for a period of two years for the export of capital goods. The rate for transactions carried out under an ordinary insurance policy is 7.5 to 8.5 per cent.
- ^{d/} In February 1961 the Bank of England extended its refinancing facilities to enable long-term export credits to be financed at 5.5 per cent; they had previously been financed at 6.5 per cent.

Table 29

INTER-AMERICAN DEVELOPMENT BANK (IDB): OPERATIONS
AS AT END OF FISCAL YEAR,^{a/} 1963-66

(Millions of dollars)

	1963	1964	1965	1966 ^{b/}	Total 1963-66	Accrued to 1962	Accrued to 1966 ^{c/}
<u>Regular capital resources</u>							
Loans authorized	179.3	164.0	121.5	100.9	565.7	206.5	772.2
Disbursements effected	59.8	106.6	82.9	97.2	346.5	31.2	377.7
Reimbursements received	0.6	4.8	8.8	18.5	32.7	-	32.7
<u>Special Operations Fund</u>							
Loans authorized	32.5	49.4	196.6	291.3	569.8	89.2	659.0
Disbursements effected	15.3	24.6	28.6	44.6	113.1	11.3	124.4
Reimbursements received	0.1	0.9	3.2	5.5	9.6	-	9.6
<u>Social Progress Trust Fund</u>							
Loans authorized	47.1	85.9	51.2	-	184.2	320.6	504.8
Disbursements effected	65.9	66.8	70.6	70.0	273.3	22.7	296.0
Reimbursements received	1.3	3.0	4.3	6.2	14.8	0.4	15.2
<u>Other resources</u>							
Loans authorized			4.2	3.9	8.1	-	8.1
Disbursements effected			-	-	-	-	-
Reimbursements received			-	-	-	-	-

Source: ECLA, on the basis of International Development Bank (IDB), Annual reports.

^{a/} 31 December.

^{b/} Provisional data.

^{c/} Discrepancies in totals may be due to rounding, or in other cases to the exclusion of some loan repayments.

/Africa and

Africa and Asia, Jamaica and Yugoslavia). (See table 30.) As regards the use of credits, however, Latin America's position in relation to the other countries improved in percentage terms. Between 1963 and 1966 (close of fiscal years), the funds used by the region reached a net total of 441 million dollars.

In contrast, the Latin American countries lost some of their relative importance in the transactions of the International Finance Corporation (IFC) since at the end of the first session of UNCTAD they were accounting for nearly two-thirds of the sums used and the net disbursements effected, whereas in 1966 their share had dropped to less than half by the close of the fiscal year. The loans to Latin America that were authorized in the last three fiscal years increased its IFC balance by 5 million dollars, additional net disbursements to the region amounting to 4 million dollars; while in the case of the other developing countries as a group, the corresponding increments (in the IFC balance and in net disbursements) totalled 28 and 23 million dollars, respectively. (See table 31.)

As regards operations with the International Development Association (IDA), which grants very easy terms, the deterioration in the position of the Latin American countries vis-à-vis those of Africa and Asia is particularly marked; out of total credits of 814 million dollars authorized between 1963 and 1966, 33 million dollars were assigned to Latin America and 781 million to the other developing countries, while the two groups' respective shares in actual disbursements were 42 million and 571 million dollars. (See table 32.)

Although the IDA transactions have not the same characteristics as credit operations, being intended to supplement compensatory financing of balance-of-payments deficits, IMF's operations with Latin America during the fiscal years that have ended since the first session of UNCTAD, and up to the end of 1966, show a net outflow from Latin America of 84 million dollars. This contrasts with the position of the other developing countries and above all with that of the industrialized countries, since the net purchases of these two groups amounted, respectively, to 428 million and 4,165 million dollars. (See table 33.)

Table 30

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (IBRD): BALANCES AT END OF FISCAL YEAR, ^{a/} BY GROUPS OF COUNTRIES, 1963 AND 1966

(Millions of dollars)

	Latin America ^{b/}		Other developing countries ^{c/}		Industrialized countries ^{d/}		Total	
	1963	1966	1963	1966	1963	1966	1963	1966
Disbursed portion	833.6	1 274.9	1 184.4	1 630.4	1 169.6	1 322.8	3 187.6	4 228.1
Undisbursed portion	465.1	615.3	551.2	921.4	228.3	548.6	1 244.6	2 085.3
<u>Total</u>	1 298.6	1 890.2	1 735.6	2 551.7	1 397.9	1 871.4	4 432.2	6 313.4
Loans not yet effective	121.6	120.9	155.5	80.5	19.2	30.0	296.3	231.4

Source: ECLA, on the basis of IBRD, Annual reports.

^{a/} 30 June.

^{b/} Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela.

^{c/} Algeria, Burma, Ceylon, China, Cyprus, Ethiopia, Gabon, Ghana, Guinea, India, Iran, Israel, Jamaica, Kenya, Lebanon, Liberia, Malaysia, Morocco, Nigeria, Pakistan, the Philippines, Sierra Leone, the Sudan, Thailand, Tunisia, Turkey, Uganda, the United Arab Republic, the United Republic of Tanzania and Yugoslavia.

^{d/} Australia, Austria, Belgium, Denmark, Finland, France, Iceland, Italy, Japan, New Zealand, Norway, Portugal, South Africa, Spain, United Kingdom.

Table 31

INTERNATIONAL FINANCE CORPORATION (IFC): BALANCES AT THE END OF
FISCAL YEAR, ^{a/} BY GROUPS OF COUNTRIES, 1963 AND 1966

(Millions of dollars)

	Latin America ^{b/}		Other developing countries ^{c/}		Industrialized countries ^{d/}		Total	
	1963	1966	1963	1966	1963	1966	1963	1966
Net disbursements	28.4	32.6	8.7	32.3	4.3	3.5	41.4	68.3
Undisbursed balances	4.1	5.3	5.7	10.3	-	-	9.8	15.6
<u>Total</u>	<u>32.5</u>	<u>37.9</u>	<u>14.4</u>	<u>42.6</u>	<u>4.3</u>	<u>3.5</u>	<u>51.2</u>	<u>84.0</u>

Source: ECLA, on the basis of IFC, Annual reports.

a/ 30 June.

b/ Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Peru and Venezuela.

c/ Ethiopia, Greece, India, Iran, the Ivory Coast, Jamaica, Liberia, Malaysia, Morocco, Nigeria, Pakistan, the Philippines, the Sudan, Thailand, Tunisia, Turkey, Uganda and the United Republic of Tanzania.

d/ Australia, Finland, Italy and Spain.

Table 32

INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA): BALANCES AT END
OF FISCAL YEAR,^{a/} BY GROUPS OF COUNTRIES, 1963 AND 1966

(Millions of dollars)

	Latin America ^{b/}		Other developing countries ^{c/}		Total	
	1963	1966	1963	1966	1963	1966
Loans disbursed	9.5	51.5	58.8	630.1	68.3	681.6
Loans undisbursed	57.8	49.0	307.5	516.9	365.3	565.9
<u>Total</u>	<u>67.3</u>	<u>100.5</u>	<u>366.3</u>	<u>1 147.0</u>	<u>433.6</u>	<u>1 247.5</u>
Loans not yet effective	3.0	7.5	58.5	110.2	61.5	117.7

Source: ECLA, on the basis of IDA, Annual reports.

^{a/} 30 June.

^{b/} Bolivia, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Haiti, Honduras, Nicaragua and Paraguay.

^{c/} Afghanistan, Basutoland, Bechuanaland Protectorate, Burundi, China, Ethiopia, India, Jordan, Kenya, Korea, Mauritania, Morocco, Niger, Nigeria, Pakistan, Somalia, the Sudan, Swaziland, Syria, Tunisia, Turkey and the United Republic of Tanzania.

Table 33

INTERNATIONAL MONETARY FUND (IMF) OPERATIONS, 1963/64 TO 1966/67 (FISCAL YEAR ENDS 30 APRIL)

(Millions of dollars)

Country	Fiscal year 1963/64		Fiscal year 1964/65		Fiscal year 1965/66		Fiscal year 1966/67 ^{a/}		Total
	Draw-ings on fund	Repur-chases from fund	Draw-ings on fund	Repur-chases from fund	Draw-ings on fund	Repur-chases from fund	Draw-ings on fund	Repur-chases from fund	
Argentina	25.00	36.00	-	50.00	30.00	52.00	17.50	48.00	-113.50
Bolivia	2.50	3.50	-	2.75	-	2.50	-	2.50	-8.75
Brazil	60.00	55.50	50.00	44.00	25.00	58.95	-	19.53	-42.98
Chile	32.50	10.00	22.00	13.00	34.00	41.50	20.00	27.30	+16.70
Colombia	23.50	6.00	5.00	22.00	19.75	28.00	18.00	21.50	-11.25
Costa Rica	4.00	1.29	5.00	2.07	7.00	2.50	4.75	2.50	-12.39
Dominican Republic	-	9.00	20.00	-	-	-	6.60	-	+17.60
Ecuador	-	3.27	3.00	6.58	9.25	2.00	5.00	-	+5.40
El Salvador	-	-	-	-	-	-	20.00	-	+20.00
Guatemala	-	3.90	-	-	5.00	-	7.00	0.40	+7.70
Haiti	4.50	2.50	3.75	-	2.45	2.75	3.94	3.00	+6.39
Honduras	5.00	2.50	2.50	2.50	2.50	2.50	-	2.50	-
Jamaica	-	1.19	-	0.24	-	-	-	-	-1.43
Mexico	-	-	-	-	-	-	-	-	-
Nicaragua	13.30	12.25	5.65	-	-	-	-	-	+6.70
Panama	-	-	2.69	-	-	-	-	-	+2.69
Paraguay	-	0.38	-	0.50	-	0.36	-	-	1.24
Peru	-	-	-	-	-	-	-	-	-
Uruguay	-	-	-	-	-	2.00	5.00	4.00	-1.00
Venezuela	-	-	-	-	-	-	-	-	-
Total Latin America	170.30	147.28	119.59	143.64	134.95	195.06	107.79	131.23	-84.58
Other developing countries	105.60	92.32	302.85	200.45	517.35	210.94	126.74	120.20	+428.63
Developed countries	350.00	140.83	1 475.00	172.89	2 165.00	-	490.00	1.31	+4 164.97

Sources: Fiscal years 1963/64, 1964/65 and 1965/66, IMF, Annual reports; fiscal year 1966/67, International Financial News Survey.

^{a/} Up to December 1966.

/In conclusion,

In conclusion, unless and until a substantial change takes place in the pattern of the flow of funds into the developing countries - as regards both the amount of assistance provided and the terms on which it is offered -, the Latin American countries will find it more and more difficult to finance their economic development, and the endeavours made in recent years to expand their capacity to export will be crushed under the growing burden of their external payments situation.

The UNCTAD secretariat has carried out a study (TD.B/C.3/36) on the developing countries' new capital requirements if the net inflow of grants and loans is to be maintained at its present level. The basic assumption is that the terms on which assistance is given will take one of the following three alternative forms:

1. Average terms similar to those current in 1966;
2. IDA-like terms (50-year maturity, 10 year grace period, no interest, and a service rate of 0.75 to 1 per cent);
3. Terms similar to those generally applied by IBRD in the case of development credits (25-year maturity, 5-year grace period and interest rate 6 per cent per annum).

On the basis of these three alternatives, projections were formulated of the gross inflows required, the debt outstanding, and the percentage of gross loans that will be absorbed by debt service, if net credit inflows are to increase at an annual rate of 5 per cent. (See table 34.)

At the first session of UNCTAD, the proposal known as the "Horowitz Plan" was presented (see E/Conf.46/C.3/2). The idea was that an interest equalization fund, financed by the developed countries or by IBRD, should be established as a means of obtaining resources from the traditional capital markets for IDA, which would lend them to the developing countries on its usual terms. As a secondary measure, the developed countries would guarantee the bonds issued and give them easy access to their financial markets. The Conference expressed strong interest in this proposal,^{35/} and recommended that IBRD should make a further study of all its aspects. The study requested (TD/B/C.3/1) was presented at the first session of the Trade and

^{35/} See UNCTAD, Final Act and Report, annex A.IV.11.

Table 34

GROSS ANNUAL LOANS, DEBT OUTSTANDING AND PERCENTAGE OF
GROSS LOANS THAT WILL BE ABSORBED BY DEBT SERVICE

(Thousands of millions of dollars)

Terms	Gross annual loans	Debt outstanding	Debt service as a percentage of gross capital inflow
<u>First alternative</u>			
1966	11.4	32.3	35.1
1970	13.9	50.9	46.7
1975	16.1	78.7	54.0
<u>Second alternative</u>			
1966	11.4	32.3	35.1
1970	13.4	49.7	44.8
1975	12.9	72.4	46.8
<u>Third alternative</u>			
1966	11.4	32.3	35.1
1970	14.5	52.1	49.0
1975	17.5	85.6	57.7

Source: ECLA, on the basis of UNCTAD, Problems of debt servicing: the outlook for debt service (TD/B/C.3/36), tables 2 and 3, pp. 10-11.

/Development Board.

Development Board. Subsequently, at the request of the Committee on Invisibles and Financing related to Trade, a group of experts was set up, and made a number of suggestions to pave the way for implementation of the proposal (TD/B/C.3/23).

The developed countries claim that legal and technical difficulties would be created for their governments by the fact that the interest equalization fund would involve them in long-term commitments for an indefinite period. If these operational difficulties could be overcome, the launching of the Horowitz Plan would signify the trying-out of a system that might do much to augment the inflow of capital into the developing countries.

(c) Compensatory financing

On the basis of a report by the secretariat of the International Monetary Fund,^{36/} presented at the invitation of the United Nations Commission on International Commodity Trade (CICT), the Board of Governors of the Fund, at its meeting on 27 February 1963, decided to introduce a special system for dealing with member countries' balance-of-payments deficits resulting from short-term fluctuations in their export earnings. This system consisted in establishing a new source of capital that would facilitate drawings on the Fund, essentially on the part of primary exporting countries, but only for the purpose of compensating temporary shortfalls in aggregate export income which were largely attributable to circumstances beyond the control of the member country concerned. Consequently, the system did not cover price declines if these were offset by an increase in the volume of exports. Nor did it take into account deteriorations in the terms of trade or reductions of the external purchasing power generated by exports.

According to the report, "in order to identify more clearly what are to be regarded as export shortfalls of a short-term character, the Fund, in conjunction with the member concerned, will seek to establish reasonable estimates regarding the medium-term trend of the member's exports on the basis of appropriate statistical data in conjunction with qualitative

^{36/} IMF, Compensatory Financing of Export Fluctuations, February 1963.

information about its export prospects". In other words, no fixed method was established for determining the amount of the shortfall, although the formula applied in the cases that have arisen ^{37/} was based on a five-year moving average, centering on the year of the shortfall. A coefficient of 0.25 was assigned to the two years preceding it, and one of 0.50 to the shortfall year itself, while for the two following years, an estimate of export earnings was formulated.

The terms on which drawings could be made were not as stiff as those normally applied by the Fund, but its usual practices were maintained inasmuch as the use of these resources was not unconditional, nor was compensation automatic. Drawings to compensate export fluctuations could not normally exceed 25 per cent of the member's quota (the member country retaining its right to use the Fund's resources for solving its other balance-of-payments problems) and is added to the credit tranches already authorized. But the Fund was prepared to waive the limit on Fund holdings of 200 per cent of quota if normal use had already been made of the higher credit tranches at the time when the export shortfall occurred. Repurchases restored the member's facility to make further compensatory drawings, should the need arise, and could be effected, in accordance with the Fund's normal regulations, within a period of from three to five years. Furthermore, the Fund declared its willingness to give sympathetic consideration to requests for adjustment of the quotas of primary exporting countries, and in particular of those with relatively small quotas. At the first session of UNCTAD, a recommendation was adopted to the effect that Governments members of the International Monetary Fund should study measures to increase the amount allocated by the Fund to compensatory financing of fluctuations in export income to 50 per cent of a member country's quota; that the resulting compensatory credits should be placed entirely outside the structure of the normal credit tranches, "so that the drawing of compensatory credits would not directly or indirectly prejudice a member's ability to

^{37/} Four operations are recorded under the head of compensatory financing: Brazil drew 60 million dollars in June 1963; the United Arab Republic 16 million, in October 1963; the Sudan 11.2 million, in June 1965; and Colombia 31 million in March 1966.

make an ordinary drawing"; and that the member countries should explore ways to secure possible refinancing of compensatory financing obligations in the event of a persistent shortfall in export receipts beyond the control of the country affected. Lastly, it was requested that the Fund, in its determination of the shortfall in export receipts, should consider giving greater weight to the actual experience of the three years preceding the year of the shortfall.^{38/}

At the annual meeting of the Boards of Governors of IMF and IBRD in September 1965, several Governors representing developing countries requested that the terms of the IMF resolution adopted in February 1963 be modified. The Minister for Economic Affairs of the Argentine Republic, speaking on behalf of the Latin American countries and the Phillipines, recapitulated certain points in the UNCTAD resolution quoted above, and requested that drawings should be automatic, or, in other words, that once the shortfall had been determined, the compensatory drawing should be automatically authorized.^{39/} A year later, in September 1966, the Fund altered its system,^{40/} introducing amendments which, in the event of a deterioration of short-term trends in the prices of certain primary products, might prove to be of great importance. However, some of the suggestions referred to above were rejected.

The following are the main innovations introduced:

(1) The maximum amount that a member country may draw to compensate decreases in its export earnings is raised to 50 per cent of its quota. But except in the case of shortfalls resulting from disasters or major emergencies, "such drawings will not be increased by a net amount of more than 25 per cent of the member's quota in any 12-month period". Requests for compensatory drawings in excess of 25 per cent of the quota "will be met only if the Fund is satisfied that the member has been co-operating

^{38/} UNCTAD, Final Act and Report, annex A.IV.17, p.52.

^{39/} See Banco Nacional de Comercio Exterior de México, Comercio Exterior October 1965, pp. 710-711.

^{40/} See IMF, Compensatory Financing of Export Fluctuations: a Second Report, September 1966, appendix III, pp. 37 et seq.

with the Fund in an effort to find ... appropriate solutions for its balance-of-payments difficulties", since it is desirable to "avoid such changes as would tend to weaken the ability of the Fund to exert its influence with members toward early adoption of sound corrective policies".^{41/}

(2) A line of demarcation is drawn between compensatory drawings and the ordinary drawing facilities, inasmuch as the Fund will be prepared to waive the limit on Fund holdings of 200 per cent of quota, both in order to authorize compensatory drawings and to permit other drawings if there are compensatory drawings still outstanding. However, drawings under the compensatory facility are included in Fund holdings of the member's currency, so that the normal IMF policies and practices may be applied to subsequent applications for drawings.

(3) Within six months of an ordinary drawing, a member country may reclassify all or part of it as a compensatory drawing, and thus restore to that extent its normal drawing rights, for use in the event of balance-of-payments contingencies.

(4) The condition that the amount of the compensatory drawing be repurchased in the fourth and fifth years after it is made remains in force. But the Fund recommends that "as soon as possible after the end of each of the four years following such a drawing, the member should use in repurchase an amount approximately equal to one-half of any excess of exports over the medium-term trend value" as determined for the purposes of establishing the amount of the drawing.

That is, the amended provisions adopted by the International Monetary Fund still differ in the following respects from those requested in UNCTAD recommendation A.IV.17 and at the 1965 meeting of the Board of Governors:

(1) Compensatory credits have not been placed "entirely outside the structure of the gold and successive credit tranches", so that the drawing of such credits "would not directly or indirectly prejudice a member's ability to make an ordinary drawing".

(2) Although compensatory drawing facilities have been raised to 50 per cent of the quota, they cannot be used all at once, save in exceptional circumstances.

^{41/} Ibid., p. 29.

(3) Drawings will not be automatically authorized when the shortfall to be compensated has been determined. Instead, before authorizing the drawings, the Fund will review the evidence that the member country has made an effort to seek appropriate solutions for its balance-of-payments difficulties.

(4) The request that greater weight should be given to the actual experience of the three years preceding that in which the shortfall is determined has not been met. The practice to be maintained is that of taking a moving average for a five-year period, centered on the shortfall year, which is weighted with a coefficient higher than that assigned to the two preceding years. Thus, the trend value is underestimated, and consequently the amount of the shortfall to be compensated is smaller. This is in line with the Fund's idea that "it is not the object of the compensatory facility to aim at the largest possible amount of drawings".

(5) Nothing has been done in respect of exploring ways to secure possible refinancing of compensatory financing obligations in the event of a persistent shortfall in export receipts beyond the control of the country affected. In this connexion, however, it must be borne in mind that the repurchase of ordinary drawings opens up the possibility of making new drawings, and that the Fund's statutes require it to deal only with temporary balance-of-payments problems, not long-term deficits.

(d) Supplementary financing

With the amendments introduced in September 1966, the International Monetary Fund system represents definite progress in the field of financing, and can be still further improved by the adoption of such measures as experience may indicate to be the most appropriate for the liberalization of its terms. But short-term plans to finance fluctuations in export earnings do not correct trends, and can only serve as temporary palliatives to mitigate their effects.

The basic difficulty lies in solving the problem of financing designed to ensure the execution of economic development plans. A number of schemes, proposals, and studies have engaged the attention of international agencies in recent years, but it was not until a pertinent recommendation was adopted at the first session of UNCTAD ^{42/} that IBRD prepared, in December 1965,

^{42/} See UNCTAD, Final Act and Report, Annex A.IV.18, pp.52-53.

the study entitled Supplementary Financial Measures ^{43/} which has been, and still is, under discussion by the Trade and Development Board's Committee on Invisibles and Financing related to Trade, and an inter-governmental group of experts on supplementary financing.

The following are the essential features of the IBRD study:

(1) Objective of the scheme. The purpose of the scheme is to prevent the disruption of sound development policies or programmes resulting from unexpected shortfalls in export proceeds which prove to be of a nature or duration that cannot adequately be dealt with by short-term balance-of-payments support. It therefore aims at providing the supplementary resources needed for the continued implementation of internationally approved plans.

(2) Administration of the system. An agency would be set up whose function would be to grant supplementary financing to countries whose development plans were jeopardized by a fall in export proceeds due to causes beyond their control. This administering agency would evaluate the feasibility and the implementation of the plans, in agreement with each of the countries concerned.

(3) Financing of the system. IBRD estimates that 1,500 - 2,000 million dollars would be required for an initial experimental period of five years. Of this amount, a small portion (not defined) could be subscribed in cash, and the rest in promisory notes which could be cashed by the administering agency without delay if necessary. Although it is stipulated in the UNCTAD recommendation referred to above (A.IV.18) that "all the major Part I member countries of the International Development Association (IDA) should contribute", the IBRD study suggests that specific financing and administrative questions should not be considered in detail until the viability of the scheme is established.

(4) Beneficiaries of the scheme. In principle, all the developing countries would have the right to use the financing facilities provided under the scheme, whatever their income level, provided that they reached agreement with the administering agency on a "policy package" through which the targets for resource mobilization and utilization would be attained: i.e., on development policies and programmes and related issues. Of central importance would be the government's commitment to good performance in the

^{43/} IBRD, Supplementary Financial Measures. A Study requested by the United Nations Conference on Trade and Development, 1964, December, 1965.
/pursuit of

pursuit of sound policies for development. The policy understanding would normally include a financing plan for public sector investment and estimates of private investment, with reference to the principal sectors and domestic and external sources of financing, as well as a projection of the balance of payments, including estimates of the principal components of exports, imports, use of reserves and the categories of external financing. The prior agreement would also cover the determination of adjustments that might be made to compensate unexpected shortfalls with due care to ensure that these adjustments would not affect the implementation of the development programme agreed upon.

(5) Use of resources. Whenever actual exports exceeded projected exports, the resulting "overages" would be recorded by the administering agency. If subsequently in the same export projection period shortfalls of actual exports from projected exports occurred, the accumulated "overages" would first be deducted; if there was still a deficit, the beneficiary country would have to resort, where possible, to the IMF's compensatory financing system, or cover it with its own reserves or by means of normal drawings on IMF. If neither the Fund's resources nor the country's own reserves could be used, or if, when the country had availed itself of these facilities, the shortfall still persisted, the administering agency would consider the possibility of procuring funds from other sources. Only then would it provide the remainder, taking care to see that the entire process did not result in a distortion of the basic objective, i.e., "to provide the needed finance with certainty and speed on appropriate terms in order to avoid disruption of development programmes". Throughout the plan period, the beneficiary country, in order to avail itself of the supplementary financing, would have to keep in touch with the administering agency, so that the latter would have a basis on which to evaluate how far the plan was being implemented and determine the need for possible adjustments whereby it could be adapted to existing circumstances, in the event of a change in the conditions originally attending its execution.

/(6) Repayment

(6) Repayment of assistance. The net deficit over the entire projection period that was financed by the agency would be transferred into long-term indebtedness. Shortfalls materializing in the initial phase of the plan would have to be reimbursed out of any excess earnings obtained during the same projection period. If net excess earnings were registered at the end of one plan period, they would not be carried over to the next.

(7) Terms of assistance. The study does not establish the terms on which financing would be made available (rates of interest and maturity periods) but states that they would be adapted to the member country's overall economic and financial situation, and in principle would be similar to those granted by the international credit agencies and to those on which the country obtained other types of development financing, although it might be necessary to grant funds to many countries on concessional terms. In any event, the objective would be to let the beneficiary know in advance what treatment to expect.

The IERD scheme was adopted as a basis for the discussion of supplementary financing by the above-mentioned Committee of the Trade and Development Board. However, a number of doubts arose as to its underlying principles and technical aspects. As regards the former, fear was expressed lest the faculties of the administering agency might be such as to affect the sovereign independence of Governments in respect of a number of economic policy decisions involving technical questions, and that differences of opinion on these subjects might give rise to friction or limit a country's ability to obtain aid. From the technical standpoint, it was pointed out that the amounts estimated by IERD for the experimental period might be too small, in which case the problem would arise of how to determine the bases for the pro rata distribution of the sums available for aid.

Another view expressed was that the financing of a decline in export proceeds might not suffice to meet the rise in import prices, and this would involve a conceptual modification of the scheme, so that net income on current account could be financed. In this connexion, the representative of IERD drew attention to the difficulty of formulating technical estimates of variations in import prices, but said that if the administering agency had the necessary technical resources at its disposal, it could calculate export income shortfalls in real rather than in nominal terms.

/Some criticism

Some criticism was also levelled at the requirement that any excess in actual export earnings over projected income should be used for the compensation of possible future shortfalls within the plan period. It was suggested that such surpluses might usefully be applied to other purposes which might sometimes be of great significance for particular countries, such as the amortization of the short-term external debt, the reconstitution of reserves, the acceleration of the investment programme or the execution of investment projects that had been deferred. In this last case, the beneficiary country might retain a percentage of the excess earnings obtained, and transfer the remainder to IBRD.

Another important consideration related to the terms of assistance, which, according to the UNCTAD recommendation, should be similar to those granted by the International Development Association (IDA). Under the IBRD scheme, the terms envisaged are similar to those of the basic development financing provided for each individual plan, which might subsequently create balance-of-payments difficulties for the beneficiary country.

(e) Compensation of a deterioration in the terms of trade

Both the compensatory financing system of the International Monetary Fund and the supplementary financing scheme of the International Bank for Reconstruction and Development are designed to cover solely a decline in export income, regardless of the possible effects of a rise in import prices on the purchasing power of exports. Both agencies have acknowledged the validity of the arguments in favour of compensatory financing of a deterioration in the terms of trade, but allege the impossibility of calculating such compensation. The fund study recognizes that "there are undoubtedly good economic reasons for compensating not the money value but the real value, or importing power, of exports. An estimate of the latter could be arrived at by deflating exports by an import price index based on the shortfall year".^{44/} It adds, however, that there are a number of objections to this procedure, since most primary producing countries have no import price index, and of those import price indices that exist, many are

^{44/} IMF, Compensatory Financing of Export Fluctuations. A Second Report September 1966, p. 12.

unrepresentative or unreliable. Generally speaking, they usually become available several months later than the data on export proceeds, so that the delay in the granting of a compensatory drawing would necessarily be increased. The export and import price indices of industrialized countries would not be useful for the purpose in question.

The study outlining the IBRD scheme declares: "Ideally, export shortfalls probably should be calculated in real terms, i.e., after taking account of unexpected movements in import prices, because this would indicate the unexpected change in the ability to purchase a given volume of imports resulting from an unexpected decline in export proceeds. In this way, the scheme could take cognizance of some aspects of the terms-of-trade problem, which has created so much concern in the post-war period".^{45/} But IBRD too goes on to argue that there are statistical obstacles to an evaluation of the changes in import prices within a reasonable margin of error, and that in any event during the period 1959-63 the weighted index number of the unit value of imports for all the developing countries in the aggregate showed no very marked change.

In other words, the only objection is that for the time being, statistical facilities are not available for establishing import price indices, since the inconvenience of the delay in compensatory drawings as a result of possible time-lags in statistical data, to which the Fund alludes, could be temporarily obviated by means of adjustable drawings. Whatever the conclusions that may be reached as regards the treatment of the terms of trade in compensatory and supplementary financing machinery, it is important to recall that the developing countries - in particular those of Latin America, in the Charter of Alta Gracia - have urged the need to adopt practical decisions aimed at the establishment of a system whereby these countries can obtain equitable and non-reimbursable compensation for the losses they suffer as a result of the deterioration of the terms of trade.

^{45/} IBRD, Supplementary Financial Measures, December 1965, pp. 64-65.

4. Maritime transport

(a) Progress made by UNCTAD in the field of shipping

(i) Introduction

The first session of the United Nations Conference on Trade and Development (UNCTAD) marked an important stage, since this was the first time that a United Nations agency was to deal with the economic aspects of shipping from a broad standpoint. These are vital issues for the developing countries whose exports constitute nearly 60 per cent of the total volume of world trade carried by sea. All the Latin American countries except Mexico depend almost entirely on maritime transport for their international trade.

Although it was universally recognized that shipping questions had a crucial impact on world trade and that their solution would be an important factor in achieving UNCTAD's objectives, it proved impossible at that session to reach complete agreement on the conflicting proposals and viewpoints of the developing and the developed maritime countries. However, the Conference adopted two recommendations on the subject, the first on a common measure of understanding on shipping questions (A.IV.22) and the second on necessary institutional arrangements and procedures for dealing with shipping questions (A.IV.21).^{46/}

There was consensus that consultation machinery should be established on a national and regional basis and that it should be tailored to suit conditions in the various countries and region, but there were conflicting views on the organization of the system.

It was also unanimously agreed that high priority should be given to the study on the improvement of port operations and connected facilities. The study should cover both port conditions, including administrative and labour questions, and conditions of connected inland transport, since these two factors have a considerable incidence on shipping and total transport costs.

^{46/} See The United Nations Conference on Trade and Development, Analysis of the results and prospects for Latin America (E/CN.12/714), particularly pp. 79-87.

/In addition,

In addition, it is clear from the programme of work that the Committee will only promote the establishment of merchant fleets, particularly in developing countries, if they can operate on a sound economic footing. The relevant work programme should therefore include not only a general study on the development of merchant fleets in those countries but also an investigation and analysis of the economic factors and criteria on which decisions for the development of national or regional fleets will be based. The most important factors indicated in the programme are: (a) the role of merchant fleets in economic development at the national or regional level, particularly in diversifying the economic structure of developing countries; (b) the relative priority of investment in shipping compared with investment in other sectors; (c) the net effect of shipping operations on the balance of payments in developing countries; (d) the national merchant fleets as a source of employment; and (e) the national merchant fleets as an instrument for promoting the exports of developing countries.

(ii) Special session of the Committee on Shipping on its work programme covering the level and structure of freight rates, conference practices and adequacy of shipping services

These subjects were exhaustively discussed at a special session of the Committee of Shipping, held in Geneva from 18 to 25 July 1966. The report presented by the secretariat of UNCTAD set forth: (a) the objectives of the proposed studies on freight rates and the methods and criteria for achieving them, and (b) more briefly, proposals for duly carrying out studies on other conference practices and the adequacy of shipping services.

The representatives of the developing countries supported the secretariat's proposals. The delegations of the developed maritime nations expressed disagreement with several of the proposals, mainly those related to route studies, since, in their opinion, they would involve the disclosure of confidential information of a kind to which even their Governments had no access. They considered that freight rate questions should be left to the parties directly concerned for negotiation in the consultation machinery between the shipping conferences and

/shippers./ The

shippers. The delegations of the developing countries emphasized that route studies constituted the key element of all freight rate studies, since the country studies and commodity studies would be of little use unless more was known about the factors that entered into the determination of those rates.

The programme of studies finally adopted by the Committee does not differ essentially from the secretariat's proposals for country studies, commodity studies, overall or aggregative studies, and studies on other conference practices and the adequacy of shipping services. As regards the route studies, the Committee approved the following wording: "The purpose of a pilot study will be to gain an insight into the freight-rate making process. In this study, among the different factors that enter into the determination of the level and structure of freight rates, account will be taken of, inter alia, market conditions (especially elasticities of demand), turn-round of ships in port, allowances for stowage and load factors and cost calculations. One or two relatively simple liner routes with relatively few ports of call and relatively narrow range of cargoes would be selected for this purpose. In order to carry out this, a simulation method or any other technique would be applied".

The Committee also adopted the whole programme of work.^{47/} Paragraph 3 of this programme reads as follows: "There is no intention to use the proposed research for the purpose of expressing an opinion as to the 'correctness' of any particular rate. As indicated in paragraph 2, the intention is principally to carry out studies which will throw more light on the rate-making process and the principles underlying it and on the inter-relationship of trade and the prices and costs of ocean transport. While studies of this sort cannot in any way affect the sovereign rights of Governments, they shall not be designed to

^{47/} In reviewing the report of the Committee on its special session at the fourth session of the Trade and Development Board (August-September 1966), the representatives of several important maritime countries reaffirmed the position they had adopted at the special session on the question of route studies.

lead to governmental or intergovernmental regulation of freight rates, nor should they oblige shipowners and shippers to reveal confidential information about their costs".

(iii) The second session of the Committee on Shipping and progress in UNCTAD's programme in the field of shipping 48/

The second session of the Committee, which took place in Geneva from 21 February to 8 March 1967, was the first to be held since the adoption of its programme of work. The discussions dwelt mainly on: (a) the problems likely to arise in establishing consultation machinery between the shipping conferences and shippers or users; (b) progress made in the Committee's programme of work and in activities in the field of shipping carried out by other international organizations; (c) aspects of maritime transport included in the provisional agenda of the second session of UNCTAD; and (d) the provisional agenda and date and place of the third session of the Committee.

As regards the establishment of national and regional consultation machinery, the secretariat submitted the report Consultation in shipping. Establishment of national and regional shippers' bodies, consultation and negotiation between shippers and shipowners (TD/B/C.4/20 and Add. 1-5), which contains a brief analysis of the existing consultative bodies and consultation procedures, the conclusions reached on the basis of collected data and their analysis, and detailed case studies of the history, organization and functioning of the existing bodies and procedures, mainly in Western Europe, Australia and India. It also contains reports from the secretariats of the Economic Commission for Latin America (ECLA) and the Economic Commission for Asia and the Far East (ECAFE) on their activities in promoting and establishing shippers' bodies and consultation machinery in the two regions concerned, as well as replies from fifty-eight Governments to a note verbale from the Secretary-General of UNCTAD on the establishment of shippers' councils and consultation machinery. Replies were received from five Latin American countries: Argentina, Costa Rica, Guatemala, Mexico, and Trinidad and Tobago.

48/ This section was based on incomplete documentation on the discussions and results of the Committee's second session.

The representatives of the developing countries considered that the report of the Secretary-General of UNCTAD should be widely disseminated among those countries and that technical assistance was needed in the establishment of shippers' councils and consultation machinery. The assistance might take two forms: (a) enabling personnel from the developing countries to study the existing shippers' organizations, and (b) technical assistance projects drawing upon the existing expertise of the UNCTAD secretariat for substantive support. It was also recognized that the secretariat was justified in not attempting to construct a universally applicable model or models, inasmuch as conditions varied greatly from country to country and from region to region.

(iv) Level and structure of freight rates, conference practices and adequacy of shipping services

Before the adoption of the Committee's programme of work, the secretariat of UNCTAD had engaged several consultants to prepare studies on shipping problems in particular countries and regions. The secretariat hopes to publish three of these important studies in the first quarter of 1967: a study on liner shipping in India's overseas trade, a study on shipping problems in West Africa, and a progress report on the cost of ocean transport and the trade of developing Asia. Three studies are being prepared in Latin America by regional consultants in co-operation with the secretariat of ECLA: two on the development of the merchant fleet in Argentina and in Colombia and Ecuador, and a third on freight rate problems and conference practices in Brazil's foreign trade.

The secretariat of UNCTAD has prepared the outline of a typical country study which can be used flexibly as a model for new country studies.

The UNCTAD secretariat will co-operate, as appropriate, with the United Nations regional commissions and other organizations in the preparation of commodity studies. It has initiated the first commodity study - on timber and timber products - in collaboration with the joint UNCTAD/FAO Working Party on Forest and Timber Products established in 1966. This study is particularly interesting because the incidence of transportation costs on the prices of timber and timber products is

/relatively high

relatively high and because it offers the opportunity of analysing the problems connected with the relative structure and levels of freight rates for a raw material and a number of processed products.

In its work on route studies, a particularly complex subject, the secretariat is in the first instance endeavouring to find suitable routes for analysis. Briefly, this will involve finding an actual liner route that will be sufficiently simple to enable the analysis to be carried out in practice, but which would nevertheless not differ unduly in its essentials from more complicated liner trades.

In the aggregative studies an attempt will be made to estimate accurately the incidence of shipping costs on the trade of certain countries. This would involve complementing the study on balance of payments data for the countries concerned with a study of freight rates and trade statistics. A more complete picture of the influence of shipping on the balance of payments can then be built up gradually.

A preliminary study on the economic implications of containerization in maritime transport is being prepared for presentation at a United Nations' seminar on this subject which is scheduled to take place in May 1967. A consultant was engaged to prepare a more detailed report on the general implications of technological changes in shipping in the widest sense, for submission at the second session of UNCTAD. The secretariat of UNCTAD is at present examining the nature of the various conference practices and their effects on the volume, structure and other features of international trade. Possible modifications to practices with deleterious effects on the expansion of world trade, in particular the trade of developing countries, will be considered. Such practices include the "closed" nature of many conferences, the inadequate representation of conferences at various ports of the world, deferred rebates, dual rates, traffic pool agreements, etc. The adequacy of shipping services will be examined at the present stage in the country studies.

The general opinion at the second session of the Committee on Shipping was that the secretariat had adopted an appropriately pragmatic approach in its outlines of the freight rate studies, and that those

/outlines were

outlines were in consonance with the Committee's work programme. Many delegations expressed the hope that the secretariat studies, in particular the commodity studies and the studies on merchant marines, would be published soon or would be submitted to Governments in good time before the second session of UNCTAD.

The representatives of a number of developing countries considered that, besides the studies on shipping problems on the Asian and West African routes, studies should also be made on shipping in other countries and regions. In this connexion, particular attention was drawn to the interest which studies of Latin American shipping routes might offer.

(v) Improvement of port operations and connected facilities

In a report on this subject, the secretariat analyses provisionally the basic principles and guidelines for studies on the development and improvement of ports, and underlines the main defects of many of the previous studies. For many years the United Nations has rendered technical assistance to port authorities in developing countries, but has never engaged in general systematic research in this field. The report presents a number of important considerations regarding the evaluation of the effects of port improvements and the distribution or incidence of the benefits deriving therefrom. As the research progresses, the secretariat will be able to produce operational criteria and "tools" to help port authorities, inland transport agencies and national planning offices to organize and plan the development of ports.

(vi) Establishment or expansion of merchant marines in developing countries

The secretariat of UNCTAD is carrying on with this project in accordance with the draft provisional agenda for the second session of the Conference and the work programme of the Committee on Shipping. A progress report will be presented at the second session, together with such case studies on the merchant marines of developing countries as may be completed in time. The secretariat report will cover the methodology and economic criteria that will be followed in preparing these studies, in line with the Committee's programme of work. The studies envisaged will relate primarily to developing countries, although a number of the issues to be discussed are also relevant to developed countries which either do not possess a merchant marine or where the extension of an existing merchant fleet is possible.

(vii) Current

(vii) Current and long-term aspects of maritime transport

The secretariat suggests that UNCTAD should publish an annual study on current and long-term aspects of maritime transport, which would present and analyse important shipping statistics and review the salient developments in world shipping during the year.

The report would cover the following subjects: (i) world merchant fleet and its future development; (ii) world shipping and its recent trends; (iii) utilization of capacity in shipping services; (iv) evolution of freight rates; (v) examination of some factors of maritime transport costs; (vi) development of ports; (vii) general considerations; and (viii) bibliography.

The secretariat issued a preliminary report of this nature entitled Review of developments in world shipping (TD/B/C.4/25), which is an up-dated revision of the section on shipping in the document Review of international trade and development, 1966 (TD/B/82), prepared by the Secretary-General of UNCTAD for the fourth session of the Trade and Development Board.

The reports prepared for the second session of the Committee on Shipping emphasized the importance of co-ordinating the work of the secretariat of UNCTAD with United Nations activities in technical assistance and pre-investment projects under the United Nations Development Programme and its regular technical assistance programme. Such co-ordination would enable the Committee to focus attention on the solution of practical problems of most concern to Member States and would provide the necessary support and guidance for technical assistance and pre-investment activities. In this respect, the report also refers to resolution 31 (IV) of the Trade and Development Board on technical assistance in trade and related fields, including trade in invisibles.

(b) Principal ECLA studies on shipping

Following the above description of UNCTAD's work programme and the analysis of the basic aspects and evolution of shipping in Latin America, brief reference will be made to ECLA's activities in this field. In Resolution 18 (IV), adopted in November 1964, the ECLA Trade Committee recommends: (a) that the secretariat of ECLA intensify its studies in

the field of maritime transport; and (b) that, as a first step towards improving their shipping systems, the Governments of the Latin American countries (i) adopt forthwith the measures needed to establish the system of consultation between the shippers and the shipping conferences recommended by the first Conference of UNCTAD; and (ii) establish at a government level, with the participation of shippers and associations of shippers, "units to study problems of maritime transport".

In the Transport Programme, ECLA has co-operated actively with the secretariat of UNCTAD, particularly in four studies on the following subjects: the development of Argentina's merchant fleet; the merchant fleets of Colombia and Ecuador; freight rate problems and conference practices in Brazil's foreign trade; and freight rates in the region.

The programme of basic studies undertaken by ECLA in order to complete the analysis of maritime transport and devise a strategy for its future development includes a study on the present structure of freight rates for maritime transport inside the region and between the region and third countries. The purposes of this study are to describe and evaluate the systems and practices in use for determining freight rates and the system of freight conferences operating in Latin American trade, to describe the present structure of freight rates, and to analyse the factors determining it and the effect of freight rates on the volume and flow of Latin America's international trade, the location of economic activities and regional development.

The work programme also includes studies on the structure of shipping services, cargo movements and the utilization of capacity in regional shipping services; operating costs of ships plying routes in the region, taking into account the structure of shipping taxes and subsidies in the various Latin American countries; and the cost structure and operational efficiency of the principal ports. These studies will provide the bases for a thorough investigation of such aspects as the economic feasibility of investment by the Latin American countries in their merchant fleets, and for some studies on the implementation of the ALALC Water Transport Agreement.

/The intention

The intention is also to carry out a preliminary study on the application of new unitized methods for the movement of freight and combined transport in regional shipping. The aim would be to determine some basic principles and conditions for the participation of regional shipping services in world technical progress in this field.

(c) Basic aspects and evolution of maritime transport in Latin America

(i) Latin American shipping and foreign trade

From 1956 to 1965 the total volume of world trade in goods carried by sea rose from 880 million to 1,600 million metric tons. This represented the bulk of world trade (see table 35), which varied in structure with the increase in the proportion of liquid fuel. There is also a marked tendency to carry cargo in increasingly large bulk vessels which normally operate in special ports or sectors.

Latin America's share in the total world volume of sea-borne cargo has declined in the last few years, but this does not give a true picture of the overall position of the Latin American countries since a major part of that volume consists of petroleum and iron ore exports from Venezuela, which were approximately 133 million tons in 1956 and 184 million in 1964.

The total tonnage unloaded in Latin America has remained practically the same and its share in the world total has fallen off more than that of other developing regions.

The preponderance of movements of raw materials in bulk in Latin America's foreign trade, combined with other factors of a geographical and economic nature, explains why most of the region's trade is carried by sea (96.8 per cent in 1965).

Secondly, a large proportion of Latin America's foreign trade is dependent on special contracts for chartering tramp vessels outside the traditional system of freight conferences for liner shipping. This system is important not so much because of the large volume of traffic as because of the high value involved in freight, particularly in the import trade. Transport outside the conference system can decisively influence Latin America's foreign trade, since it involves the movement of raw materials of a relatively low value; thus a small percentage variation in freight rates might prevent a whole line of production from competing on the world market. Conversely, a relatively small change in conference freight rates for many general cargo items might cause only marginal variations in foreign trade in the region or in a particular country.

Table 35

LATIN AMERICA: SHARE IN WORLD SHIPPING, 1956-65

(Millions of tons)

Year	World total (1)	World total		Total Latin America		Total Latin America (excluding Venezuela)		Percentage		
		Dry cargo (2)	Liquid fuel (3)	Loaded (4)	Unloaded (5)	Loaded (6)	Unloaded (7)	(4)/(1) (8)	(5)/(1) (9)	(6)/(2) (10)
1956	880	490	390	175	41	42	39	19.9	4.6	8.5
1958	920	480	440	188	42	45	39	20.4	4.6	9.4
1961	1 140	550	590	217	42	58	40	19.0	3.7	10.5
1962	1 230	570	660	233	40	62	38	18.9	3.2	10.9
1963	1 330	620	710	238	40	65	38	17.9	3.0	10.5
1964	1 490	690	800	255	44	71	41	17.1	2.9	10.3
1965	1 600	880	720	258	...	...	...	16.1		

Source: United Nations, Statistical Yearbook, various issues.

(ii) The share of Latin American fleets in the region's foreign trade

The share is estimated at less than 10 per cent (possibly only 7 per cent).

The big foreign corporations which produce and export raw materials are usually shipowners or have connexions with shipping companies. The Latin American countries export most of these products on an f.o.b. basis, while on the other hand a large proportion of general cargo, particularly imports, is carried in vessels owned by third countries.

Unfortunately, data are available for only a few countries showing what proportion of their foreign trade is carried in their own ships. In Argentina the percentage was 14.6 for imports in 1965, which is higher than in the other countries for which information is available, and no doubt the highest figure in the whole region. This is due to Argentina's relatively large merchant fleet and the nature of its foreign trade, which includes fewer products of the sort that are normally transported in bulk, thus enabling Argentina to carry a larger proportion of its trade in its own vessels. (See table 36.)

Table 36

LATIN AMERICA: FOREIGN TRADE CARRIED UNDER THE NATIONAL FLAG
IN SELECTED COUNTRIES, 1964

(Millions of tons)

Country	Total volume of foreign trade	Volume carried under the national flag	Percentage
Argentina (1965)	26.7	3.9	14.6
Brazil	32.8	3.1	9.4
Ecuador (1965)	2.0	0.02	1.6
Mexico	18.0	1.1	6.1
Peru	11.9	0.2	1.7

Source: Foreign trade yearbooks.

Uruguay is in much the same position. In 1965 its merchant fleet carried 27 per cent of its export trade, consisting wholly of general cargo, and 11 per cent of its imports. On the other hand, in countries whose foreign trade is transported mainly in bulk, the national fleets play a much smaller part. Thus in 1965 Brazil's fleet carried only 9.9 per cent of its foreign trade, and Peru's fleet 1.7 per cent. Low percentages are recorded in countries with very small merchant fleets.

The share of national ships in intra-regional trade is considerably higher. In 1965 they absorbed 32.2 per cent of total ALALC exports (figures for seven countries) and 41.3 per cent of total imports. These percentages have increased in recent years, although they naturally differ from country to country. While Argentina's ships carried 44.6 per cent of ALALC exports and 48.7 per cent of its imports in 1965, Ecuador is at the other end of the scale with 3.2 and 4.2 per cent, respectively.

(iii) The evolution of Latin America's merchant fleets

The share of these fleets in the world total is undoubtedly contracting, since it dwindled from 3.4 per cent in 1955 to 2.6 per cent by mid-1966. At the same time, the share of the other developing countries, mainly in Asia, increased from 5 to 6.8 per cent. (See tables 37, 38 and 39.)

Table 38 indicates that countries such as India, Indonesia, Israel and the Philippines have expanded their merchant marines considerably, whereas the Latin American fleets, with few exceptions, have been slow to increase.

It is important to have a clear idea of exactly what this reduction in Latin America's share of world tonnage means. One of the main causes of the striking increase in total world tonnage was the increase in the carriage of liquid fuel from the producing areas to Western Europe and North America for which more tankers had to be built. In fact, the world tonnage of dry cargo boats rose by 51 per cent between 1957 and 1966, while tanker tonnage climbed 100.3 per cent over the same period.^{49/} Latin America's relative loss of ground should therefore be assessed in the light of these developments. The fact that its merchant fleets have never played an important part in the export of liquid fuels and bulk ores has also had something to do with the decline in its position. However, table 39 shows that, although slower growing, Latin America's merchant marine has followed the pattern of the world fleet in structure, with rather more emphasis on tankers.

In 1965, the average age of the region's merchant shipping was well above normal, but in 1966 the situation improved (in Chile, Mexico and Peru at least).

^{49/} UNCTAD, Review of developments in world shipping (TD/B/C.4/25, January 1967).

Table 37

DISTRIBUTION OF WORLD TONNAGE, 1955, 1964 AND 1966

	Gross tonnage			Percentage of world tonnage		
	1955	1964	1966	1955	1964	1966
World	97.1	149.6	167.7	100.0	100.0	100.0
Maritime countries	80.1	110.6	117.5	82.5	74.0	70.1
Honduras, Hong Kong, Liberia, Panama	8.6	19.7	26.2	8.9	13.1	15.6
Socialist countries of Eastern Europe and Asia	3.5	9.4	12.6	3.6	6.3	7.5
Total developing countries	4.9	9.9	11.4	5.0	6.6	6.8
In Africa	0.2	0.6	0.7	0.2	0.4	0.4
In Asia	1.4	5.2	6.3	1.4	3.5	3.8
In Latin America	3.3	4.1	4.4	3.4	2.7	2.6

Source: Lloyd's Register of Shipping (statistical tables).

Note: If the United States Reserve Fleet is excluded, which, on 1 July 1966 amounted to nearly 8 million gross tons compared with 10.5 million gross tons in July 1964, the share of the developing countries would have been about 7.1 per cent in 1966. The increase in world tonnage would then have been 14.8 per cent and the increase in the tonnage of maritime nations 9 per cent. For the purposes of this table, Honduras, Hong Kong, Liberia and Panama have not been included under the head of "developing countries".

Table 38

COMPARISON OF VARIATIONS IN THE MERCHANT FLEETS OF THE LATIN AMERICAN
AND OTHER DEVELOPING COUNTRIES, 1948-65

(Thousands of gross tons)

	1948	1958	1962	1965	Percent- age variation 1948-65
I. Latin American countries					
Argentina	683	1 029	1 262	1 289	88.7
Brazil	706	911	1 204	1 253	77.5
Chile	188	231	258	296	57.4
Colombia	...	...	116	160	
Mexico	114	162	201	269	136.0
Peru	87	108	131	163	87.3
Uruguay	63	72	...	113	79.3
Venezuela	96	233	328	313	226.0
II. Other developing countries					
India	315	674	1 013	1 523	383.5
Indonesia	...	119	335	505	
Israel	...	206	364	549	
Philippines	96	123	366	501	421.9
United Arab Republic	82	129	237	232	182.9

Source: United Nations, Statistical Yearbooks.

Table 39

LATIN AMERICA: CHANGES IN THE STRUCTURE OF THE MERCHANT MARINE, 1958-65

(Thousands of gross tons)

Year	Total	Tramo steamers a/	Bulk cargo boats	Tankers	Number of ships	Average tonnage
1958	3 527	2 102	186	1 239	545	6.5
1962 b/	4 746	2 429	256	2 061	784	6.1
1963 b/	5 013	2 481	251	2 281	763	6.6
1964 b/	4 743	2 381	177	2 185	666	7.1
1965 b/	4 825	2 477	168	2 180	649	7.4

Sources: 1958, 1962, 1963: ECLA. 1964-66: La marina mercante latinoamericana, I.E.M.M.

a/ Including combined passenger and cargo boats, and refrigerated cargo boats.

b/ Ships with a gross tonnage of 500 or over.

(iv) The incidence of freight on the region's foreign trade

One of the main arguments for a regional merchant fleet is that it would save on foreign exchange by reducing the current deficit against freight on Latin America's trade account. In 1964, the last year for which detailed information is available, the deficit against this item on the region's balance of payments was 507.1 million dollars while expenditure was 719.1 million dollars for fifteen out of the twenty countries concerned. (See table 40.)

If freight is combined with merchandise insurance and other transportation, the deficit will be as much as 595.9 million dollars, since some of these items usually show a debit balance on Latin America's balance of payments.

The figures available on the relation of freight costs to total payments for imports of goods show a regional average of 9.8 per cent. (See again table 40.)

Table 40

LATIN AMERICA: THE FREIGHT ACCOUNT ON THE NATIONAL BALANCES
OF PAYMENTS, 1964

(Millions of dollars)

	Credit					Debit				
	Freight	Freight, merchan- dise in- surance and other transportation a/ (2)	Exports (3)	(1)/(3) (4)	(2)/(3) (5)	Freight	Freight, merchan- dise in- surance and other transportation a/ (7)	Exports (8)	(6)/(8) (9)	(7)/(8) (10)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Argentina	52.2	123.0	1 410.5	3.7	8.7	97.2	182.1	982.7	9.9	18.5
Brazil	52.0	91.0	1 430.0	3.6	6.4	142.0	159.0	1 086.0	13.1	14.6
Bolivia	...	...	...	...	...	...	...	...	...	...
Chile	29.7	37.5	590.7	5.0	6.3	59.2	83.9	566.7	10.4	14.8
Colombia (1965)	36.5	55.9	623.2	5.8	9.0	36.0	96.0	575.4	6.2	16.7
Costa Rica	2.4	6.7	112.9	2.1	5.9	12.5	19.1	124.7	10.0	15.3
Cuba	...	...	...	...	...	...	...	...	...	...
Dominican Republic	...	...	...	...	...	...	...	...	...	...
Ecuador	...	...	...	...	...	...	...	...	...	...
El Salvador	...	2.2	175.5	...	1.3	17.3	20.1	174.5	9.9	11.5
Guatemala	2.7	7.7	158.7	1.7	4.9	18.4	26.4	184.5	10.0	14.3
Haiti b/	-	1.2	38.3	-	3.1	4.6	6.1	31.4	11.6	19.4
Honduras	1.0	2.4	97.4	1.0	2.5	9.1	9.7	91.6	10.0	10.6
Mexico	...	0.2	1 071.3	...	...	40.3	50.4	1 458.9	2.8	3.5
Nicaragua	12.8	13.8	125.5	9.8	11.0	18.4	32.4	109.8	16.8	29.5
Panama c/	0.4	12.6	84.1	0.5	15.0	16.7	23.4	162.1	9.9	13.8
Paraguay	0.8	1.6	45.4	1.8	3.5	6.3	7.3	44.3	14.2	16.5
Peru	18.6	38.2	684.5	2.7	5.6	91.1	116.1	510.7	17.8	22.7
Uruguay	...	...	...	...	...	...	...	...	...	...
Venezuela	2.9	19.7	2 481.2	0.1	0.8	150.0	177.6	1 218.8	12.3	14.6
Total	212.0	413.7	9 129.2	2.3	4.5	719.1	1 009.6	7 329.1	9.8	13.8

Source: International Monetary Fund, Statistics of international transactions in goods and services, 1961-64.

a/ "Other transportation" includes expenditure by foreign vessels in the country concerned and of domestic vessels abroad, passenger fares, chartering, and air transport.

b/ At year end.

c/ Including transactions between Panama and the Canal Zone.

/In determining

In determining the influence of freight rates on the development of Latin America's foreign trade, one of the main factors to be explored is the part played by the freight conferences. Few systematic studies have been made on this question, and of these, one or two have only just been started in UNCTAD. However, the Latin American countries contend that the quasi-monopoly of the freight conferences, most of which are in the maritime countries, raises freight costs for the region's foreign trade and produces a rate structure that does not always give a true picture of market conditions or meet some of the Latin American countries' needs as regards the development and diversification of their trade. It was in order to provide a counterpoise to the influence of shipowners outside the region, at least in inter-Latin American trade that a Water Transport Agreement was signed by the ALALC countries (see subsection vi).

A large proportion of Latin America's foreign trade, and its exports in particular, is shipped in bulk in special cargo boats or tramp steamers under charters negotiated directly with the exporters outside the conference system.

If the firms of exporters have business connexions with the shipowners or the cargo boats are the property of the enterprises that obtain the raw material, the drain on foreign exchange will be greater than the losses caused by the freight conferences' monopoly, and the Latin American countries will have less possibility of exporting transport services in a market which, for Latin America as a whole, is estimated at 1,700 million dollars.

(v) Trends in maritime freight rates and prices of raw materials and manufactured products

It will be seen from table 41 that the incidence of maritime freight rates on the balance of payments has risen in the last few years with the 16 per cent increase in the freight charges of regular shipping lines, the 40 per cent increase in the rates for chartering freighters to carry dry cargo, and the 21 per cent increase in charter costs for tankers.

The rise in freight rates over the last few years is due, among other things, to the rationalization of the world merchant shipping supply, which has been brought into fairly close line with estimated requirements.

Table 41

MARITIME FREIGHT RATES AND WORLD PRICES OF RAW MATERIALS AND
MANUFACTURED PRODUCTS, 1950-66

(Index: 1958 = 100)

Year	Freight rates			Prices		
	Regular shipping lines	Charter (dry cargo)	Charter (liquid cargo)	Raw materials A	Raw materials B	Manufactures
	a/	b/	c/	d/	d/	
1950	70	113	284	102		80
1951	88	233	559	124		96
1952	95	148	423	108		97
1953	85	115	167	104		94
1954	82	128	154	108		92
1955	89	190	220	103		93
1956	98	233	416	104		96
1957	108	167	279	106		100
1958	100	100	100	100	100	100
1959	98	107	101	97	95	99
1960	100	111	96	97	94	101
1961	104	118	89	95	90	102
1962	107	98	101	94	89	102
1963	109	120	135	100	97	103
1964	113	124	124	103	98	104
1965	116	140	121	100	93	106
1966 (first quarter)	120	137	152	101	94	...

Source: United Nations Conference on Trade and Development, Report by the Secretary-General of UNCTAD (TD/B/82 Add.2).

Note: 1958 was taken as the base year in order to avoid basing the freight indexes on exceptional years, as, for instance, those of the Suez crisis or the Korean war. It is also the benchmark year for the freight indexes published in the United Nations Monthly Bulletin of Statistics. The level of freight in 1958 is the same as in other normal years. The choice of a base year was also determined by the variations in the prices of raw materials and manufactured products. In 1958 there were no major changes in the price of manufactures, while it marked the mid-point of a decline in the prices of raw materials.

- a/ Weighted average for freight rates on various routes to and from the Ambers-Hamburg area.
- b/ Weighted average for freight rates for ships of all flags on the major routes used by the United Kingdom merchant fleet. Includes quotations for coal, grains, sugar, ores, fertilizer, wood, etc.
- c/ Non-weighted average for freight rates for various types of cargo throughout the world. The rates for liquid fuels usually show a sharp seasonal increase in the first quarter of the year.
- d/ A = world index. B = index for developing countries.

(vi) Shipping policies in Latin America

In order to achieve some independence and stability in their foreign trade, the Latin American countries will have to protect their shipping on proper terms and conditions. To frame a rational policy of protectionism they must weigh up the advantages and disadvantages of possessing their own merchant fleets. The former include the saving of foreign exchange, the possibility of exporting shipping services, increased stability in their export and import trade, the chance to establish their own freight rates for cargo picked up outside the region, the influence that they can exert on shipping conditions in general, and, in the political sphere, the reaffirmation of national sovereignty. Among the drawbacks are the difficulty of investing on a large scale in foreign currency, especially for the countries without well-developed shipbuilding industry, and the fact that shipbuilding is not a particularly dynamic element in the development of other activities.

In May 1965, ALALC convened a government meeting on shipping at Montevideo, at which a declaration was adopted on ALALC's maritime, river and lake transport policy. The principles of this declaration were reaffirmed in the Water Transport Agreement, which operates as part of the ALALC machinery. The agreement was signed by the nine countries and is now awaiting formal government ratification. The aim of the signatory States is to promote the co-ordinated development of the Latin American merchant fleets so that they may make an effective contribution to regional integration, economic growth and balance-of-payments stability.

The Agreement provides that vessels of the Contracting Parties shall carry all reciprocal trade to be shipped by water (whether sea, river or lake), except bulk cargoes of petroleum and petroleum products, and bulk cargo of other kinds which, up to 1973, would be subject to agreements negotiated by the parties concerned. Flag lines from outside the Area may have a share in this traffic, but only on a supplementary basis and under expressly stated conditions.

The Agreement also provides for the establishment of freight conferences, which, while regulating freight and organizing the supply of shipping services, would differ from traditional Conferences in being under direct government control. As regional bodies, they would also be empowered to fix rates in the light of actual conditions in the region.

In addition, a permanent intergovernmental Agreement Committee has been set up to enforce the Agreement and to propose ways and means of achieving its objectives. The distinction between the respective roles of the Agreement Committee and the freight conferences is still rather blurred, but it appears from the talks held in the last few months that the shipowners have a marked tendency to regard the freight conferences as agencies for implementing the Agreement and the Committee as a controlling agency representing the Governments of the Contracting Parties.

As the Agreement relates only to general freight traffic among the signatory States, its scope is extremely limited. Moreover, its provisions are of so general a nature that the results obtained will depend on the regulations and policy adopted by the administering agencies. Several vital issues, such as the administration and application of the principle of multilaterality, have been left to be settled by the regulations and the implementing agencies.^{50/}

Although the Agreement's sphere of action is limited, its enforcement will make it possible for the Latin American merchant fleets to co-ordinate their operations more effectively. It represents the first solid government - sponsored effort to provide a basis for concerted action by public and private shipowners in the different countries and for the formulation of a common policy. The Agreement has already produced adverse reactions in world shipping circles, in that it is the first

^{50/} A special assembly of the Latin American Shipowners' Association (ALAMAR), which acts in an advisory capacity to the Agreement Committee, has been called for April 1967 to draft a body of regulations to be submitted to the ALALC Transport and Communications Council for its consideration in August 1967.

government-supported measure to exclude third country flag lines on a regional basis. It has been opposed by the Committee of Operators of Shipping Lines to South America (Comité de Operadores de Líneas a Sudamérica - COLCSA) and by the Governments of the Scandinavian countries.

The steps taken to accelerate the integration of Latin America's merchant fleets and increase their share in maritime traffic include the formation of the Línea de las Américas. This will provide a new shipping service for the region and third countries of the Americas with vessels sailing under various American flags.

(viii) Modernization of Latin American shipping

The shortcomings of the regional shipping services are mainly due to the age of the fleets, poor port facilities and administrative problems connected with the operation of the shipping companies, particularly those that are State-owned.

In 1966 a number of new operational techniques, commonly known as techniques for the unitization of movements of freight and combined transport were put into effect on a wide scale. One of the most important is the use of containers and special ships for carrying them, which is facilitated by combined transport offering port-to-port service. It is estimated that in the next ten to fifteen years much of the general cargo now carried by regular cargo line will be shipped in this kind of vessel, and there are plans for large-scale investment in this initiative in Europe, North America and Japan. It will also be possible to adapt the traditional type of cargo boat to carry containers.

Another technique that may have a considerable impact on operational conditions in maritime transport, especially in Latin America, is the LASH (lighter aboard ship) system. LASH-type boats are equipped to transport a number of small lighters of 100 to 300 tons, each carrying containers or ordinary cargo, which is loaded or unloaded at the different ports.

It is now believed that these new techniques will shortly replace the traditional system of conferences, leading to the introduction of a simple rate system based on the weight and volume of the containers transported, whatever their contents, and to a revision of the systems of

/port organization.

port organization. The LASH system and containerization will reduce turn-round and enable larger ships to be used with the consequent reduction in costs. As the savings obtained through the use of these new techniques will depend on traffic density, existing port facilities and port administration, among other things, the investment they will entail and the administrative, legal and even institutional changes involved should be assessed before they are introduced.

Finally, the new ship automatization techniques that reduce labour requirements and speed up ships' operations will also make for the development of shipping in the region. Like the others, these techniques will be economical if the time spent in port is shortened sufficiently to justify the investment involved.

(d) Shipping questions in relation to the UNCTAD second session

As full information on the discussions and results of the second session of the Committee on Shipping not yet obtainable, it would be difficult to present comments or proposals relating to views expressed on the subject of shipping at the second session of UNCTAD. Although the provisional agenda for the session has already been issued, the scope and content of the discussions will largely depend on the progress of the studies that are being made by the UNCTAD secretariat and on the reports that will be submitted. However, some tentative comments may be made in the light of the discussions at the second session of the Committee on Shipping and the possibilities opened up by ECLA's activities in the field.

The provisional agenda for the UNCTAD second session comprises the following items on shipping:

- (a) Review of recent developments and long-term trends in the field of invisibles, including shipping, in the light of the recommendations and other provisions of the Final Act of the first Conference;
- (b) Level and structure of freight rates, conference practices and adequacy of shipping services;
- (c) Shipping industry in developing countries including the expansion of merchant marines of developing countries;

/(d) Consultation

- (d) Consultation machinery in shipping;
- (e) Port improvements;
- (f) International legislation on shipping.

This last point may not be taken up since the Trade and Development Board was unable to reach a consensus on the matter at its fourth session.

With regard to the first item, it should be remembered that the recommendations or specific provisions relating to shipping in the Final Act of the first session of the Conference were mainly concerned with the establishment of consultation machinery and the adoption of the necessary institutional and procedural measures to bring shipping questions within UNCTAD's sphere of action. It was in the light of the recommendation on this aspect that the Trade and Development Board set up a Committee on Shipping at its first session. The establishment of consultation machinery between conferences and shippers is the subject of a specific item on the provisional agenda for the second session.

The first item on this agenda deals with trade in invisibles as a whole, that is, insurance and tourism as well as shipping.

As regards the second item, the progress made thus far in implementing the relevant work programme has been described in the present report. The freight studies planned by the UNCTAD secretariat comprise country studies, commodity studies, route studies and aggregative studies. It is expected that several studies on shipping and freight rates in Asia and Africa will be available for the Conference. Freight rates and conference practices in Brazil's foreign trade are also being studied, with the collaboration of the ECLA Transport Programme.

ECLA is preparing a study on maritime freight in Latin America's intra-regional and extra-regional trade. This study, and its main conclusions in particular, may prove of great interest for the second session and provide a foundation on which to develop certain basic lines of thought on the level and structure of freight rates from Latin America's standpoint.

The practices of shipping conferences are being studied by the UNCTAD secretariat, but no detailed information is available on the nature and scope of the reports that may be submitted to the second session.

/The elimination

The elimination of some of these practices does not entail studies in depth. A case in point is the publication of freight tariffs. The lack of proper information on freight rates has been the cause of constant complaint on the part of shippers, and has proved stumbling-block for recent studies on rate levels and structure. Hence, it seems reasonable to raise this basic problem with a view to adopting a recommendation on the publication of the shipping conferences' tariffs and their registration by the competent authorities of the countries to which the conferences have shipping services. The same may be said of the need to give the parties concerned reasonable advance notice of the conferences' decisions on increases in their freight rates, the levy of surcharges, etc.

With respect to the development of merchant fleets, the UNCTAD secretariat will be submitting an initial report to the second session of the Conference. The monographs that have been completed on the merchant marines of specific countries will also be placed before the Conference. In Latin America, consultants engaged by UNCTAD are preparing, with the co-operation of the ECLA Transport Programme, two studies on the development of the merchant fleets in Argentina, and in Colombia and Ecuador, one of which is nearing completion.

In 1967, the ECLA secretariat plans to make a methodological study of the principles and criteria of investment in merchant shipping and the priority it should be given in total economic development investment. This study could usefully be submitted to the Conference as a basis for the definition of Latin America's position on this subject.

Also in 1967, the ECLA secretariat plans to make a study of unitization methods for freight movements, in particular containerization and container vessels in maritime transport. The study will examine the problems raised by the introduction of this new technique into Latin America's merchant marines and ports. The same problems will be dealt with on a global basis by the UNCTAD secretariat. The ECLA study might be useful for UNCTAD as a contribution to the analysis of the problems presented by one of the most important technical innovations in the history of shipping.

/To introduce

To introduce this method and use it efficiently, a number of regulatory and administrative arrangements must be made (customs, etc.). It is therefore essential for the Governments and competent authorities to give this question their immediate attention. It would be desirable for the Conference to adopt a recommendation on the subject, so that the Committee on Shipping, in co-operation with the regional commissions, might undertake a study on the regulatory measures required, which should be standardized as far as possible in the different regions of the world. The co-operation of shippers' councils and consultative bodies would be very useful in this connexion.

As regards the consultation machinery to be established between conferences and shippers, the UNCTAD secretariat has already prepared an extensive report which was submitted to the second session of the Shipping Committee. Future activities in this respect will have to follow the important resolution adopted by the Committee on Shipping, whose operative paragraphs are quoted in another part of this report.

This resolution calls on the regional commissions to continue their efforts, in co-operation with the UNCTAD secretariat, to establish shippers' councils and consultation machinery at the regional level. It also stresses the importance of the United Nations technical assistance programmes in this respect. The ECLA secretariat proposes to determine the technical assistance needed, in co-operation with the UNCTAD secretariat and in consultation with the shippers' councils already set up in the Latin American countries.

In relation to port improvements, the UNCTAD secretariat explained at the second session of the Committee on Shipping that it was prevented by lack of resources from making a major study in this field before the second session of the Conference.

On the subject of international shipping legislation, the UNCTAD secretariat has already stated that it does not have the necessary resources for making a thorough study of maritime law. Moreover, in spite of the fact that the inclusion of this item on the agenda was approved by the Trade and Development Board, it does not have sufficient time to carry out such a study before the second session of UNCTAD.

The ECLA secretariat has made a preliminary study on the possibilities of unifying and modernizing maritime legislation in Latin America, which it hopes to complete in readiness for that session.

